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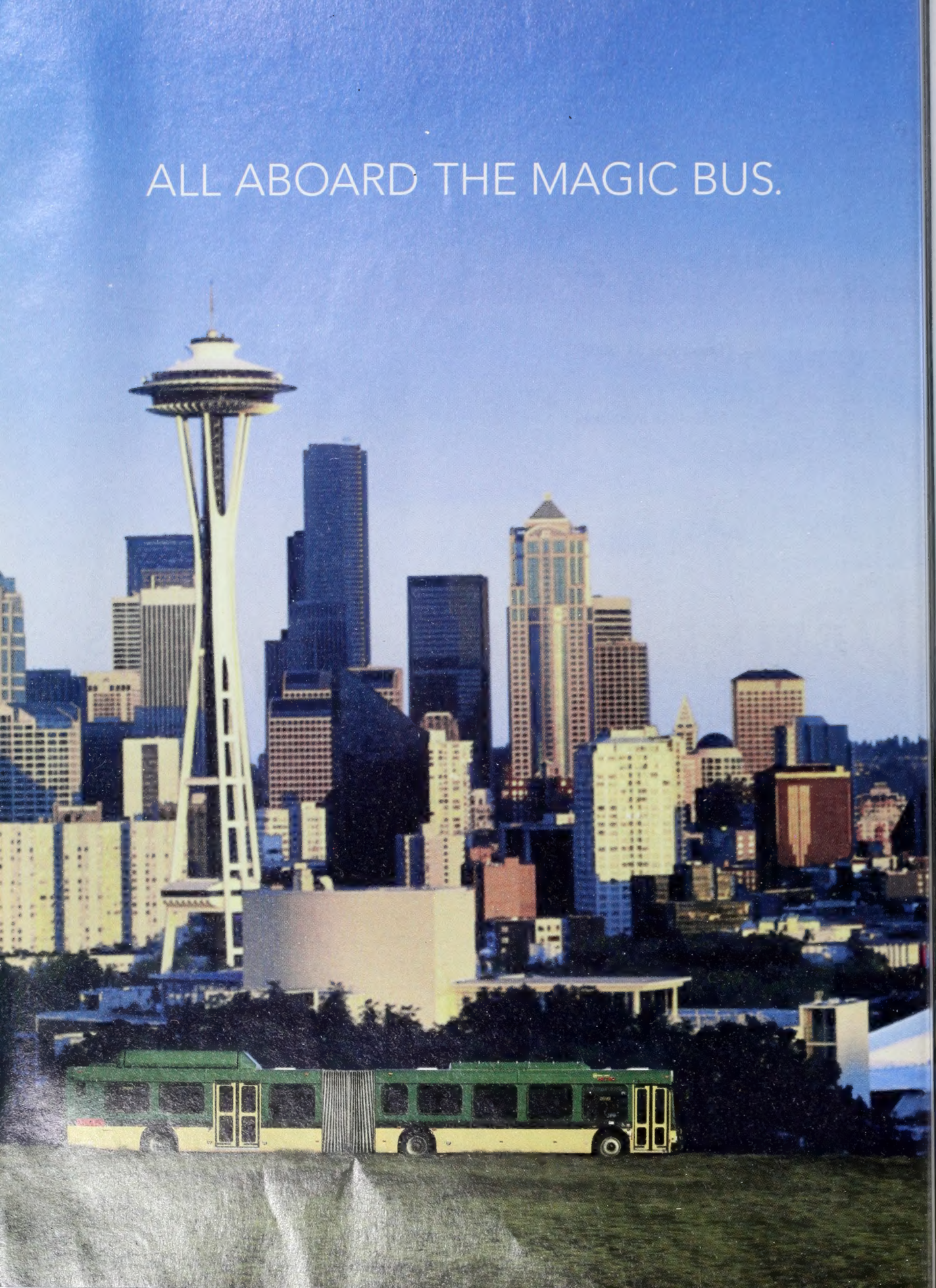
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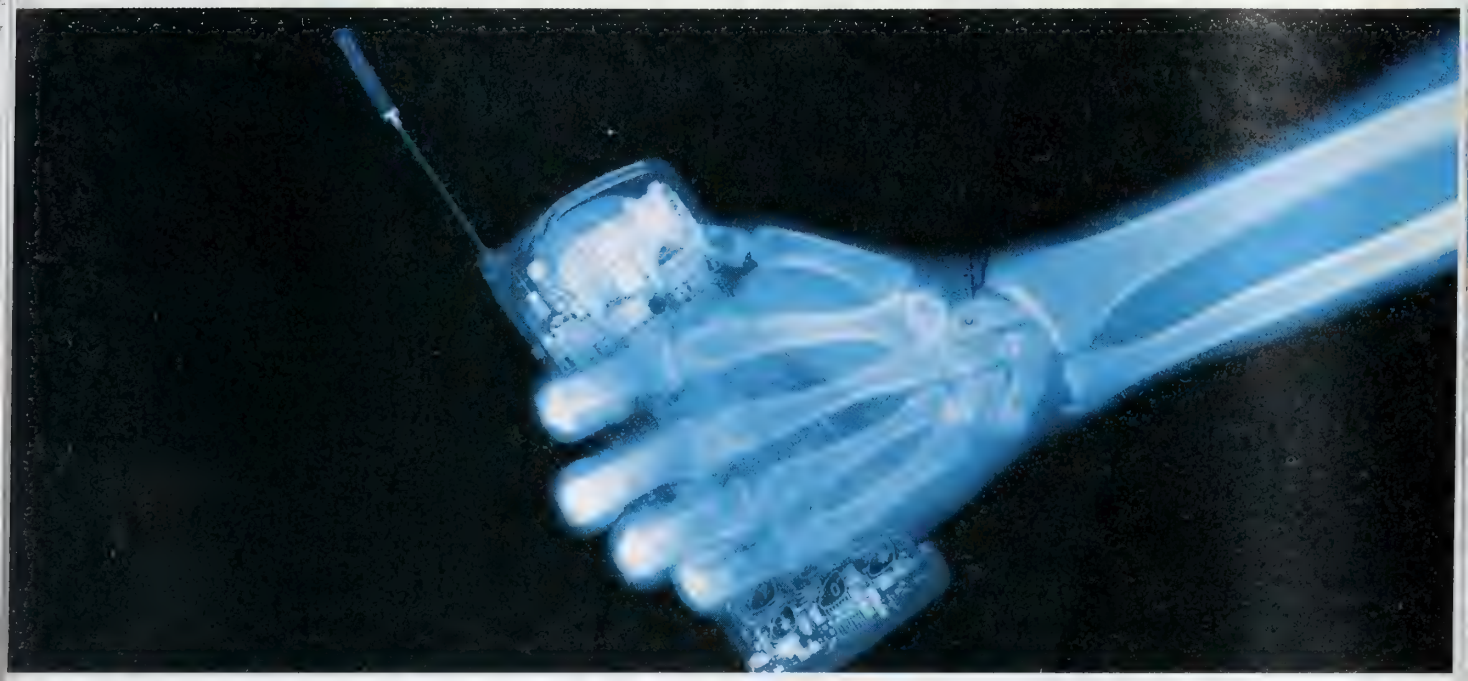

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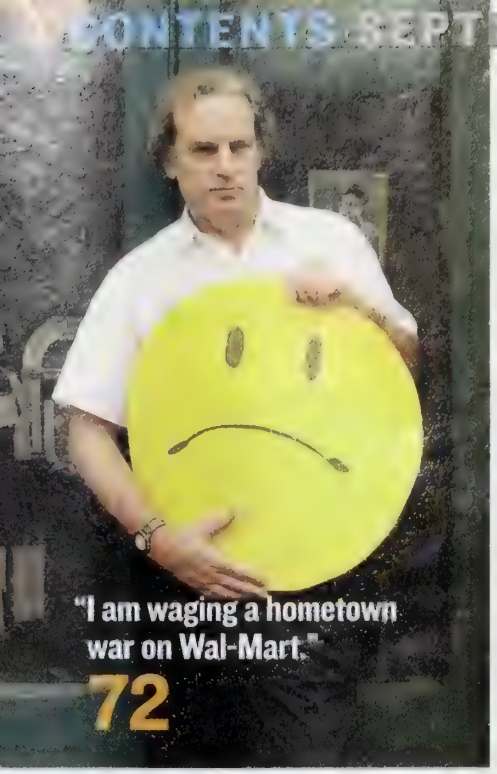

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Best Places to Die

Matthew Herper

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Real Estate

Most Overpriced Places

Betsy Schiffman

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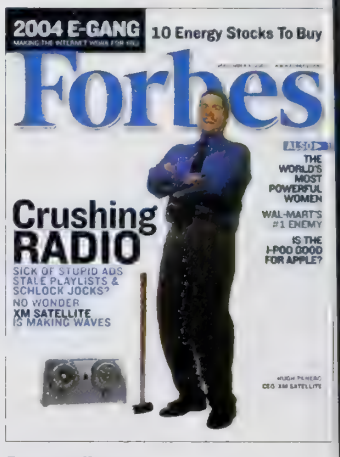

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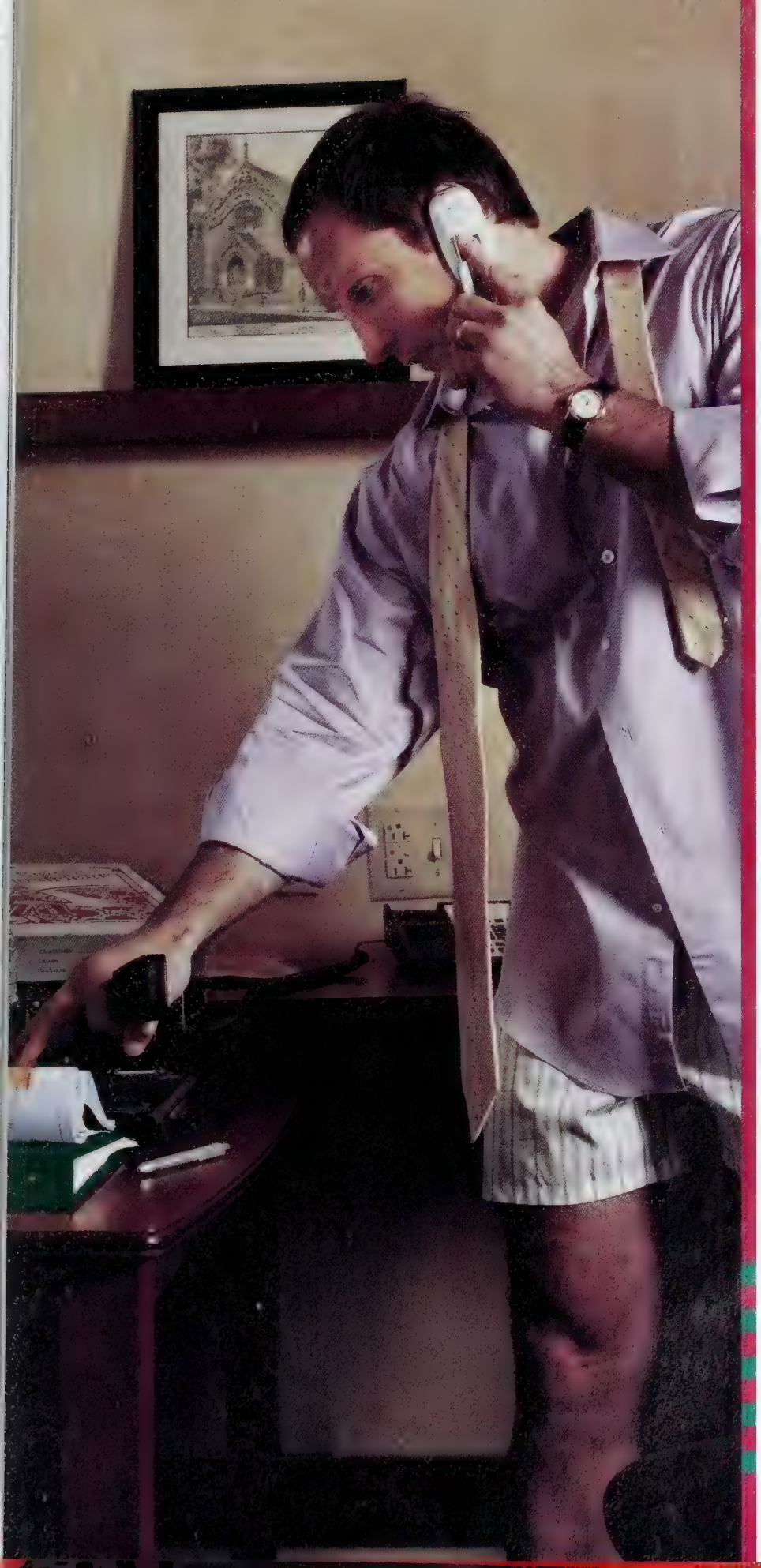

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Your Charity Dollars at Work

Lack of accountability. Executive greed. Shady bookkeeping. It's high time we cracked down on corporations—the nonprofit ones, that is.

This country's several million nonprofits escape with only the sketchiest of oversight by the Internal Revenue Service. Revenue agents figure they would be wasting their time on an audit, since there's no tax money to be had. We could fix that. Here's a three-part reform for the sector.

First, make all nonprofits with $10 million in assets or revenues post financial statements on the Web. General Electric has to reveal the boss' salary. Why shouldn't the New York Stock Exchange? At the moment there's no compulsory disclosure for many entities (like the NYSE) that don't take donations or any entity that calls itself a church. I presume that the spooky Soka Gakkai, profiled on page 126 by Benjamin Fulford and David Whelan, is doing good works, but God only knows. As a Buddhist sect, it's exempt from disclosure.

Our tax code has always treated religious groups as sacrosanct. Why? Surely there is no constitutional impediment to making disclosure a price of, say, property tax exemption or other benefits.

Next, make all corporations pay the corporate income tax. No problem for a charity hospital or a struggling theater group—they run deficits and would owe nothing. But possibly Harvard University would have to cough up a few bucks. This business operation (education is a business, isn't it?) is doing pretty well; the fattest paychecks there exceed $35 million, according to the *New York Times*.

My third proposal will elicit the loudest squeals: Limit charitable tax deductions to assistance to the needy. Such a rule would disqualify a large chunk of the $136 billion that taxpayers claimed on their 2002 returns. It wouldn't inhibit anybody's generosity to the Salvation Army. It would allow you a deduction for your donation to a scholarship fund but not for the money to build your alma mater a football stadium.

Opera companies would be in real trouble. Opera is a mechanism by which well-dressed people entertain themselves on weekends. If this is a charity, then so is the Saratoga racetrack. When William P. Barrett, our *Informer* page editor, last looked into the matter, James Levine was pulling down $1,857,000 as music director of the Met. He's talented. But why is he any more entitled to an indirect tax subsidy than an especially talented jockey?

William Baldwin
EDITOR

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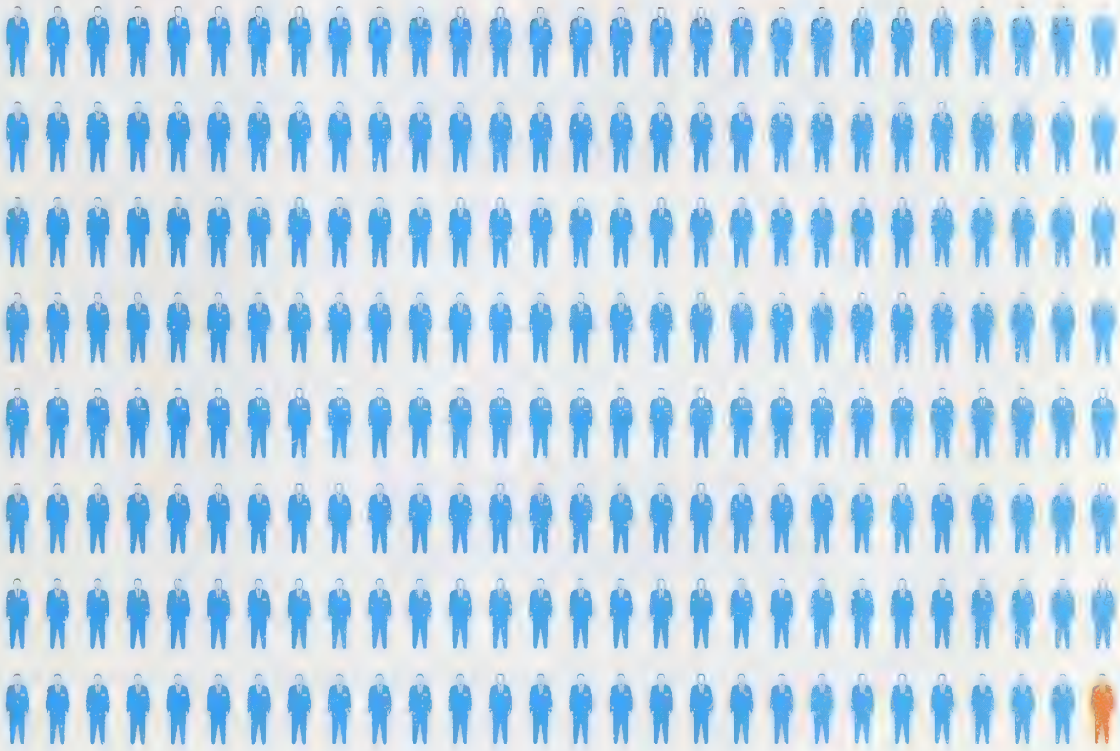

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READERS SAY

Creature Comfort

"Beware of People" *(July 26, p. 58)* didn't mention human demographic studies or other effective means of nonanimal research. Thalidomide has been proven safe in animal studies, but when given to pregnant women, has resulted in severe birth defects. Conversely, chocolate, which humans love, has been found to be toxic in animals. I am opposed to violence in the name of animal rights, but I am equally opposed to vivisection in the name of scientific progress.

KATRELYA ANGUS
Sierra Madre, Calif.

David Jacobson-Kram, an associate director at the Food & Drug Administration, claims that diethylstilbestrol (DES) was not tested on animals. In fact, DES, which had devastating consequences for the daughters of pregnant women who took it during pregnancy, was indeed tested on animals before it was given to women. Like many other drugs, it points directly to the failure of animal tests to protect people.

KATHY GUILLERMO
Correspondent, People for the Ethical Treatment of Animals
Norfolk, Va.

Board Games

"So That's Where My Proxy Goes" *(July 26, p. 54)* looks past the good and serious work that has been done by the business community in corporate governance in recent years. Under state corporate law, a company's board has a fiduciary duty to decide whether implementation of a shareholder proposal is in the company's best interest. Automatic compliance with results of a shareholder vote would violate that fiduciary obligation. Boards do give serious consideration to shareholder votes, even on advisory proposals. Many companies have adopted severance and "poison pill" policies in response to these proposals. Companies do not need high-pressure tactics and one-size-fits-all "solutions" to issues they are already addressing effectively.

JOHN CASTELLANI
President, Business Roundtable
Washington, D.C.

Weather Forecast

In "Guess Your Liability" *(On My Mind, July 26, p. 46)* you equate full disclosure with going "berserk," but risks to investors posed by climate change and environmental liabilities as real threats. Swiss Re, for example, the world's largest life and health reinsurer, estimates the annual economic cost of natural disasters, aggravated by climate changes, could double to more than $150 billion in the next ten years, leading to $30 billion to $40 billion a year more in insurance claims. For these reasons I have urged the California Public Employees' Retirement System (Calpers) and others to provide meaningful, consistent and robust reporting of their environmental practices, risks and potential liabilities. Investors deserve to know whether the companies they own face potentially devastating risks or liabilities.

PHIL ANGELIDES
Treasurer, State of California
Sacramento, Calif.

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Wheel Wisdom

"From Ramps to Riches" *(July 5, p. 99)* highlighted the injuries that Tony Hawk has endured, and referred to his skateboard as a "toy." A lot of engineering and expense go into skateboard components.

Air power: Tony Hawk flies again.

Foam decks can cost $400. A pair of Peter Verdone trucks run about $700. Add a set of 3DM slalom wheels and ABEC 9 bearings and all that just cost you $1,265. Compare this with a $20 Variflex skateboard at Kmart. The two are worlds apart, like comparing a Lamborghini with a Yugo.

CRAIG CONDON
Senior Engineer, Bosch
Farmington Hills, Mich.

What's That Say About the Others?

In "Unsafe at Safeway" *(June 7, p. 66)* FORBES mischaracterized my comments about Safeway Chief Executive Steve Burd. While I am critical of the way he has handled labor negotiations and believe he has made merchandising mistakes, he is still the best CEO in the food business.

RON BURKLE
Founder, The Yucaipa Cos.
Los Angeles, Calif.

Untasty Flavors

I couldn't agree more with "267 Flavors" *(Backseat Driver, Aug. 16, p. 88)*. Automakers endlessly create new models. There are few moderately priced station wagons, for example, because marketing studies reveal a small market for such beasts. Look for an SUV and you'll find dozens of models, most of which are rebadgings of the same vehicle. Strikes me that demographic and psychographic analysis has overtaken good sense.

KEVIN QUINN
New Providence, N.J.

Screwdrivers All Around

I found "Sober Up" *(July 26, p. 100)* interesting. In the 1970s Wayne State University did tests giving students plain orange juice or the same with vodka. Those students then had to start cars with a touchpad using a code similar to their Social Security number. They had only seconds to do this and could try again if they failed. After the second try, a kill switch disabled the ignition. This system would take drunk drivers off the road instantly. Anyone convicted of driving under the influence would have to have this device installed.

BOB MARTIN
Clarkston, Mich.

Manoj à Trois

"Customs Solution" *(May 24, p. 172)* should have noted that OpenHarbor, a service that automated and streamlined cross-border trade, originated with me. After presenting the idea to Jay Shen and his brother, Paul Shen, the three of us cofounded the company that was to become OpenHarbor.

MANOJ KARAMCHANDANI
Cofounder, OpenHarbor
Atlanta, Ga.

Contract Clarification

In "Crony Capitalism" *(June 21, p. 140)* we said that the children of the founder of insurer UICI received a put option to sell shares at $32.25 even though the stock at that time had never traded higher than $20. In fact, in 1999, when the stock was trading at $27, the children entered into a combined put/call contract with the company that allowed either side to force a sale at $32.25 in 2002. The article also described a UICI contract for a 7-cent-a-minute long-distance phone service held by a company in which the family owned a majority stake. For interstate calls, the company charged 3 cents a minute.

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FACT AND COMMENT

By Steve Forbes, EDITOR-IN-CHIEF

"With all thy getting get understanding"

Ticking Bomb

THE NEWS FROM IRAN IS GRIM. THIS ISLAMIC DICTATORSHIP—the biggest source of terrorist training and financing in the world and the nation that's doing all it can to stir up trouble in already combustible Iraq—is clearly on the cusp of becoming a nuclear power. The clerical fascists running the country have dropped just about all pretense of their atomic programs being energy-related only. Tehran announced in July that it had resumed making the centrifuges needed to produce highly enriched uranium, a key ingredient for nuclear bombs. It is, in essence, tearing up last fall's agreement with the UN International Atomic Energy Agency to keep its nuclear program transparent and to do nothing that could be construed as developing nuclear weapons.

Iran, more than Iraq or the reorganization of our intelligence agencies, is the crisis flashpoint in our war against Islamic fanaticism. What to do? John Kerry's advisers and many Bush Administration officials think we should deal directly with Iran. The Europeans would support us. The goal: to persuade Iran—through cash, trade agreements (its economy is a mess) and pats on the back—to halt its nuclear arms program. These so-called realists in this instance are the dreamers, the fantasizers.

Why *wouldn't* Iran go nuclear? Our ten-year dawdle over North Korea's nuclear adventurism hammers home to Tehran's corrupt, totalitarian-minded thugs this inescapable conclusion: Nukes mean respect, mean security—and they grant blackmail power to shake down billions in booty from the U.S. and other Western moneybags.

The implications of a nuclearized Iran are appalling. Fanatics in Iraq, Egypt, Saudi Arabia and elsewhere will be emboldened to undermine existing governments. Israel may well feel the need to strike, just as it did against Iraq's nuclear facility in 1981.

The all-too-real possibility of a violent Israeli reaction—Israel has long considered Iran's black-robed fascists to be its ultimate enemy—may be the only possible deterrent to Iran's final nuclearization. But that's not likely, given that the mullahs have probably dispersed their nuclear capabilities around the country. Iran, moreover, is not defenseless; it has missiles that can hit Israel.

Bottom line: Through every avenue possible, we should make clear to Tehran that continued nuclearization will mean the U.S. will back any Israeli response to the hilt. Furthermore, *we* will strike, perhaps even before the Israelis do. For starters, we will embargo Iranian oil exports, crippling Iran's economy and its source of military funding. We should also forthrightly support Iranian democrats and opposition groups, which have a considerable following, especially among the young. Radio Free Europe/Radio Liberty-like broadcasts should bombard Iran 24 hours a day via the airwaves and Internet.

Our European "allies" will blanch at such realistic responses. We must be prepared to go it alone.

Dithering in Iraq—one day exhibiting firmness, the next Jimmy Carter-like indecisiveness—has eroded our credibility. Indeed, Iran may have convinced itself that our Iraq experience has put the U.S. once again in a Vietnam/can't-see-it-through-anything-tough mode, thus there is little to fear from Washington. In fact, Tehran may believe that its soon-to-be nukes may put pressure on Washington to restrain the Israelis in the name of multilateral, bring-along-the-Europeans diplomacy.

The situation is extremely dangerous, and both presidential candidates should be questioned persistently and hard over how we should deal with it. To let Iran go nuclear would have profoundly unpleasant consequences for our safety and that of the rest of the civilized world.

Since When Is Good Bad?

A GAGGLE OF MEDIA PUNDITS, ECONOMISTS AND DEMOCRATIC pols claim that the supposedly poor numbers for job creation in July are proof that the economy is still weak. *Au contraire*, you pessimists and/or Bush-haters, the economy is creating a good number of new jobs. In fact, it's in good shape—and getting better.

You practically have to read the fine print to discover there are two surveys—both conducted by the Bureau of Labor Statistics (BLS)—that take the pulse of our labor markets. One polls thousands of businesses concerning their payrolls and extrapolates national numbers from that data. The other does the same by sampling several thousand households to see who is working and who is not. The payroll survey is supposedly less volatile than its household cousin, but it tends to ignore a huge part of the economy, including independent contractors, sole practitioners and small businesses such as partnerships, LLCs and S Corporations. An independent Realtor, who may be doing very well on his own, is for some reason not counted as employed.

The two surveys usually paint similar portraits of the job market. But if there are major economic changes—new businesses arising, old ones withering—the two can diverge sharply. We're in one of those periods now. In recent years companies have been relentlessly paring back expenses, yet despite the cost-cutting, hun-

dreds of thousands of new businesses have been created. It takes time, however, for these entities to show up on the survey radar. For example, the payroll survey finds the economy has lost 1.1 million jobs since George Bush took office, while the household sampling finds the economy has created a net 1.9 million new jobs.

Last month brought that disparity into sharp relief. While headlines focused on the unexpectedly low 32,000 new jobs turned in by the payroll sampling, the media ignored the astonishing results of the household survey—a creation of more than 600,000 jobs. Average the two and you'll still come up with a mighty impressive number. Moreover, payroll surveys have been subsequently revised sharply upward after past recoveries.

Some experts believe the payroll survey may be skewed, for technical reasons, because the BLS changed the way it classifies workers by industry. Normally, the agency would conduct parallel surveys to see if there might be some unaccounted-for anomalies or glitches in that adjustment. But this wasn't done. The reason: lack of money.

Other indicators of economic well-being support the notion that the household survey paints a more accurate picture of the labor market. Middle-class personal incomes have risen in each of the last three years (top income earners saw their earnings decline sharply, thanks to busted stock options and the sharp decline of capital gains). Corporate profits have shown impressive growth for more than a year. Business capital spending, which fell off a cliff in 2000, is now expanding at double-digit rates. In the past 12 months the economy has grown at a faster rate than during any comparable period in the 1990s. It should expand at a 4%-plus pace for the rest of the year. And stocks, despite their recent sloppiness, are worth $2 trillion more than they were when President Bush signed his tax-cut bill in May 2003. People's net worth is now higher than it was in pre-bubble-bursting 2000.

The specter of a presidential election victory by prosperity-killing tax booster John Kerry has dampened stocks. Crankiness over the economy is utterly unjustified—unless you believe John Kerry will be taking the oath of office on Jan. 20.

Slow Job Growth Raises Concerns on U.S. Economy

—New York Times

Celling Out the Truth

JOHN KERRY IS MAKING A BIG ISSUE OF STEM CELL RESEARCH, claiming the Bush Administration's restrictions are cruelly delaying cures for Parkinson's disease, multiple sclerosis, spinal cord injuries and other afflictions. This is misleading and dishonest.

No one questions the use of *adult*, or *nonembryonic*, stem cells for medical research and cures. There is no moral issue here. Stem cells are relatively easy to obtain, one of the biggest sources being umbilical cords. The debate is over those harvested by killing embryos.

Three years ago the President rightly banned the destruction of *new* embryos for stem cell research, believing that creating a life for the purpose of destroying it for therapeutic ends is profoundly wrong. But he opened the door for federal funding to projects using already harvested stem cells. And there is no ban on privately funded efforts.

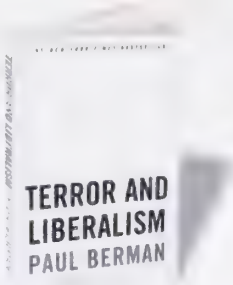
It is an unquestionable scientific fact that human beings begin life as embryos; that's the first stage in our development. From there, we grow to fetus, to infant, to child, to adolescent, to adult. We wouldn't tolerate the idea of killing children or adults to obtain various body parts for medical purposes. So—morally, philosophically—why should a human at the very start of life be treated like a pig raised for insulin? (Listening to his opponents, you'd never know that the President already crossed that line.) While Britain is now granting licenses to use cloning techniques to create embryos for "harvesting," other nations, including France, Germany, Austria and Ireland, have totally banned the creation of embryos for stem cell research.

Stem cells derived from nonembryonic sources have already produced heartening medical advances and have saved thousands of lives. So why the focus on embryonic stem cells? Good question. Results from embryonic stem cell experiments have often been disastrous, which is why private research money is overwhelmingly going to areas involving nonembryonic stem cells.

It may be that embryonic researchers want to use a little demagoguery to get their hands on more federal funds. Or perhaps certain pro-choice advocates figure their cause would be buttressed if someday we became dependent on harvesting stem cells from embryos for medical purposes. No matter the rationale, the issue, as advanced by the Democrats, is disquietingly, ethically off-base.

100 Years War

Terror and Liberalism—by Paul Berman (W.W. Norton & Co., $13.95). A must-read for understanding the threat of Islamic terrorism. Not long ago, we thought that our WWII victory over Nazism and fascism and our victory over Soviet Communism meant the end of history, that indeed, Western liberal values were triumphant. Berman's book makes the case that the fanaticism we are fighting now—a mixture of Marxism, fascism, Nietzschean nihilism and an apocalyptic, paranoid vision of the world with a dose of fundamentalist Islamism—is but a variation of that totalitarian virus that we've been battling since the end of WWI.



Berman believes we were right to overthrow the Taliban in Afghanistan and to oust Saddam Hussein in Iraq. He is no friend of the Bush Administration, however, feeling that it has botched the moral case for doing what we are doing, making our task needlessly more difficult. Many of Berman's interpretations of the past century are highly controversial, but they should not blind us to the truth of his insight, that what we are engaging in is part of a continuum of more than 80 years and that only America can successfully lead the forces of democratic civilization against the forces of darkness like al Qaeda. F

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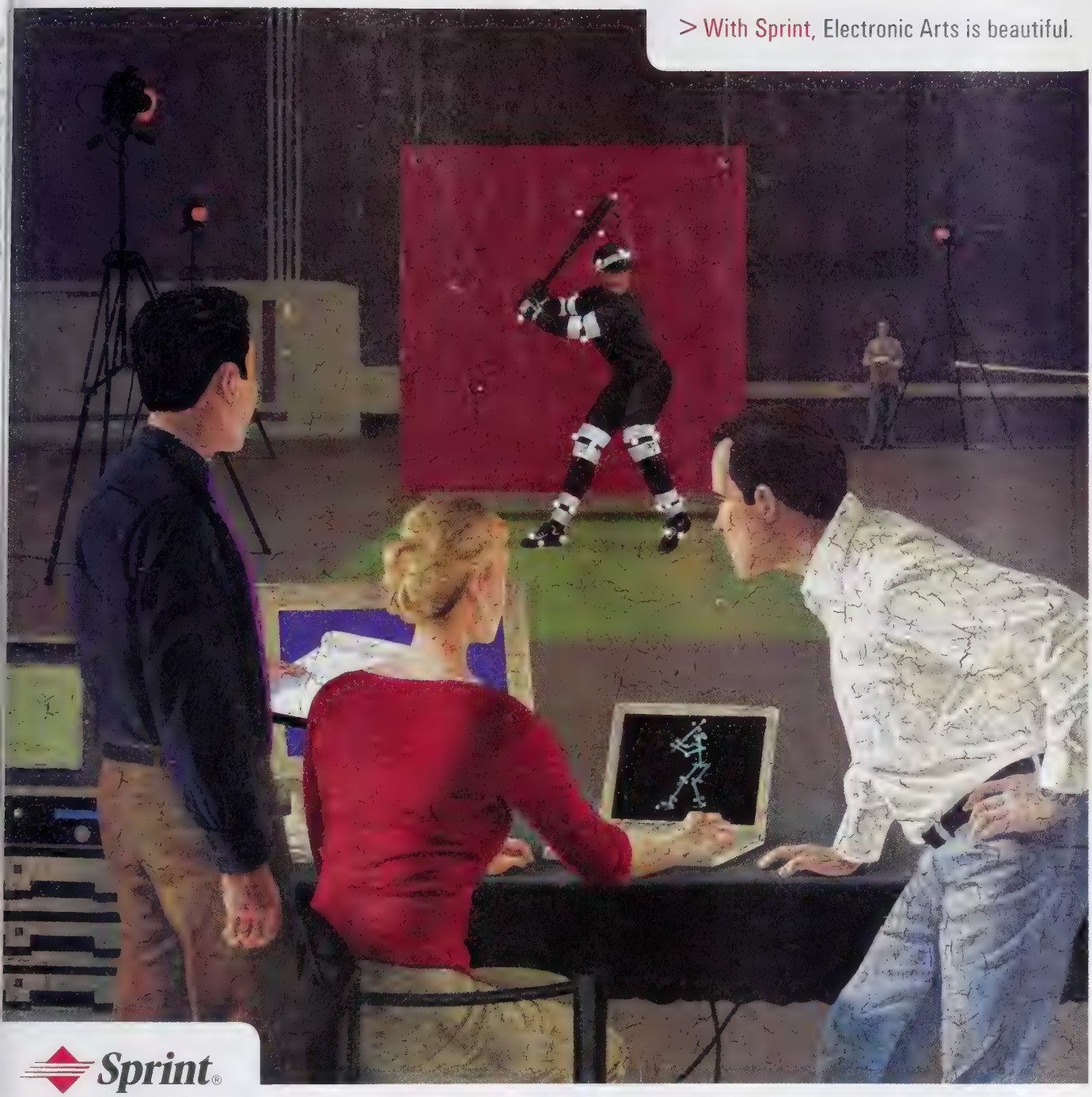

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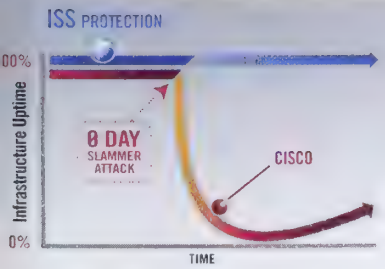

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Whatever there be of progress in life comes not through adaptation but through daring, through obeying the blind urge.

—HENRY MILLER

An Easy Choice Congress has a choice: to believe the ghost stories about employment in America, which have always been popular but never come true, or to continue the American tradition of freedom in trade and investment. If Congress arrogates to itself the power to tell American companies how to operate (to save jobs, set wages and account stock options), then it follows a well-worn path of socialist failure.

Managed capitalism is an oxymoron. Basically, Congress can choose to protect the jobs of the past or prepare Americans for the jobs of the future. It should be an easy choice.

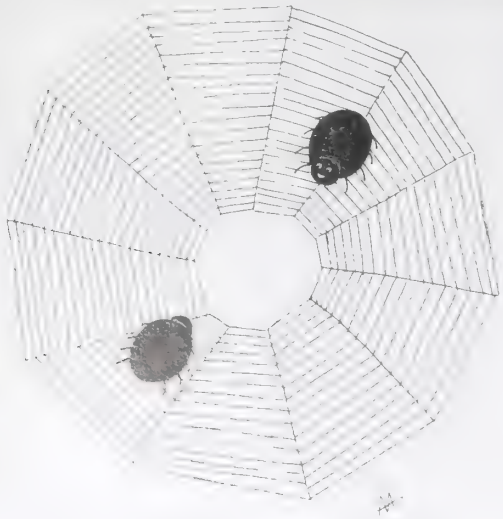
—TIM KANE, Ph.D., Heritage Foundation

AWOL When it comes to Social Security reform, John Kerry is clear about what he is against. "I will not privatize Social Security," he declared to the Democratic National Convention. "I will not cut benefits." Yet Social Security will start running a deficit in less than 15 years. Overall, Social Security now faces unfunded liabilities in excess of $26 trillion. One has to wonder where Kerry plans to get the money. Actually, it is all too clear where the money will come from. As former President Bill Clinton pointed out, there are only three options for Social Security reform: raise taxes, cut benefits or invest privately. Since Senator Kerry rules out private investment or benefit cuts, he could legitimately be accused of implicitly endorsing tax increases. And mighty big tax increases they would have to be: a 50% increase in the payroll tax or the equivalent.

But Senator Kerry continues to duck the issue. Frankly, that's not good enough. No one should be running for President if he can't stand up and tell the American people what he would honestly try to do about Social Security. President Bush has made his position clear. You can agree or disagree with [him], but at least you know where he stands. If Senator Kerry plans to raise taxes to prop up Social Security, he should tell us. If he has another idea, he should share it with us. If he believes that the current program, with all its problems, is the best we can do, he should say so.

Senator Kerry says that he has "reported for duty." But on one of the most important domestic issues facing this country, he has been AWOL.

—MICHAEL TANNER, Cato Institute



"I rather like the idea of a world-wide web."

Q&A Computers are useless. They can only give you answers.

—PABLO PICASSO

Old Europe Given France's support of our humanitarian efforts in Iraq, I shall not be spending much time in French restaurants for the foreseeable future or, for that matter, in German concert halls. I have long admired the charm of French life and the Germans' conception of music, at least from the 17th century to the early 20th—but misgivings about the French and the Germans that began with their behavior in the 1930s and have continued to the present make them repellent to me. They never faced up to post-World War II communism or to their responsibility for the cruelty and destitution that replaced their colonial empires in what came to be called the Third World. Even in the NATO alliance, they almost never met their military budgets.

The French and the Germans have almost always let the English-speaking peoples bear the cost of liberty. Even in the Balkans in the 1990s, they importuned the U.S. for as much military might as they could possibly inveigle from us. Nonetheless, throughout the Cold War and now into the war on terror, we Americans have episodically had to witness their imbecilic anti-American rallies.

As the French and Germans continue to dodder around in their moral and intellectual senescence, they are hastening the day when they move from being a topic for historians to being a topic for archeologists.

—EMMETT TYRRELL, founder and editor in chief, *The American Spectator*, in *Townhall.com*

A Mind of One's Own I am sure it is one's duty as a teacher to try to show boys that no opinions, no tastes, no emotions are worth much unless they are one's own. I suffered acutely as a boy from the lack of being shown this.

—A.C. BENSON

Savoring Summer Summer's lease hath all too short a date.

—WILLIAM SHAKESPEARE F

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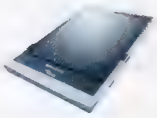

Stylistic Tablet PC

PRIMERGY Servers

By Paul Johnson

Will Showbiz and Moneybags Hijack the Election?

HERE IS ONE ENGLISHMAN'S VIEW OF THE U.S. PRESIDENTIAL ELECtion. I've been following them for more than half a century, always taking sides. I backed Truman in 1948, in gratitude for his magnificent backing of Europe's freedom, and Kennedy in 1960 because, as a Catholic, I wanted the taboo on a Catholic in the White House broken. In recent years I've backed Republicans simply because I feel safer with one as President and in charge of the West's defenses. This feeling has never been stronger than it's been since President Bush, in contrast to the careless and frivolous Bill Clinton, took on the terrorists after 9/11 and had the courage to root them out of their Afghanistan sanctuary and to overthrow Saddam Hussein's regime, the epitome of militant Arabism. It's been a source of great satisfaction that my friend Tony Blair has backed Mr. Bush's efforts 100% and has made the "special relationship" stronger than ever.

In contrast, I view Senator John Kerry with growing suspicion. As a daily reader of *Le Monde*, which unconsciously reflects Jacques Chirac's preferences, I ask myself: Why are the French so keen to see Kerry in the White House? Does Chirac, a dedicated enemy of the U.K., hope to replace the special relationship with a Franco-American one? It certainly looks that way. The official French government observer at the Democratic Convention cheerfully described Chirac's relations with Bush as "execrable," and the French Socialist observer there said that a Bush reelection would be "catastrophic" for him and his friends.

Revolted by Bill Clinton's lies and reassured by George Bush's straight talk, I dread the return to a climate of White House mendacity. Yet what is one to make of Kerry's self-presentation? He has posed as a man of Boston-Irish background in order to garner the Catholic vote, when all along he's known his family origins to be Austrian, and last year learned they were also Jewish. Why the deception? And how can a man say he is a Catholic when he repudiates his church's teaching on major issues such as abortion? I do not admire these repeated attempts to have things both ways—indeed, all ways.

Does This Inspire Trust?

I'm also unhappy about the financial side of the Kerry-Edwards ticket. While calling for the votes of the poor, Kerry enjoys the advantages of his wife's fortune, estimated to be $750 million, and travels between their five mansions on a Gulfstream V jet. He wants to raise taxes, while his wife pays an effective tax rate of only 15% on much of her income by using (legitimate) tax-avoidance provisions.

Another skillful tax avoider is Kerry's running mate John Edwards, who shelters 90% of his income from Medicare tax by means of a "Subchapter S" corporation that enables him to take his money in dividends instead of in salary. Much of Edwards' tax-avoidance scheming is beyond my comprehension, but I don't like his tone or his clever monkey tricks. Nor do I relish the fact that he has made his money and pushed himself forward by practicing the kind of litigation we call "ambulance chasing." The kind of lawyer who makes his way by encouraging litigants who have a real or imaginary grievance to go for "deep pockets" is seen here as an American phenomenon we want nothing to do with, but which, alas, is sinking deep and damaging roots in the U.K. All in all, then, Kerry and Edwards strike me as an unsavory pair.

The People Backing This Liberal Ticket

I am one of those who resent the way in which many showbiz personalities abuse their popularity by trying to bully voters into supporting their left-wing views. Many of them in London seem to be in the Kerry camp. The pop star Elton John accuses the Bush Administration of censoring music (if only it were true), a preposterous claim typical of the abuse coming from the greasepaint brigade.

Hollywood, too, seems lined up on Kerry's side. I haven't seen Michael Moore's anti-Bush movie. But all I have to do is to mentally line up Moore alongside Bush to decide whom I prefer. As Hamlet says: "Look here, upon this picture, and on this ... Hyperion to a satyr." Bush looks to be a man who keeps himself trim through self-discipline, while Moore is a gross, shapeless, unshaven monument to self-indulgence and gobbling.

Perhaps the most sinister Kerry ally is the international financier George Soros, who boasts that he will devote huge chunks of his fortune to buying a Democratic victory. Soros has always struck me as an embodiment of the Marxist caricature of "finance-capitalism," a sinister spider figure weaving his webs across frontiers. He has a long record of interfering in the internal affairs of central and eastern European countries. Much of his wealth comes from his successful efforts to devalue the pound sterling at the time of the Exchange Rate Mechanism, which inflicted significant damage on the welfare of the British people. No other financier of modern times has made such abusive use of his money to exercise power; I am tempted to recall the famous saying of Prime Minister Stanley Baldwin, written for him by Rudyard Kipling—that this is "Power without responsibility—the prerogative of the harlot throughout the ages."

It seems to me, in surveying Kerry's allies, that what we have here is a species of conspiracy by money men, showbiz celebrities and other self-important pseudo-idealists to hijack the presidential election. I trust that ordinary American voters will recognize what is happening and vote accordingly. F

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Paul Johnson, *eminent British historian and author;* **Lee Kuan Yew**, *senior minister of Singapore; and* **Ernesto Zedillo**, *director, Yale Center for the Study of Globalization, former president of Mexico; in addition to Forbes Chairman* **Caspar W. Weinberger**, *rotate in writing this column. To see past Current Events columns, visit our Web site at* **www.forbes.com/currentevents.**

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By Rich Karlgaard, PUBLISHER

Why Tech Stocks Stink

THE WIT WHO DUBBED AUGUST "THE DOG DAYS OF SUMMER" could have been looking at 2004's tech stocks in his crystal ball. Just what is ailing these critters? Let's look at all of the possible explanations. Perhaps by eliminating the foolish and transient we can discover a theme and pick up some bargains.

Here are the possible reasons for tech's slump.

August. The cliché that you should sell stocks on July 31 and buy 'em back on Aug. 31 might appear to have merit. But for every 1998 and 2004, there's an August such as 1995's, when Netscape went public and launched the greatest bull run in tech's history. Sorry, but the August explanation is meaningless.

The market is discounting a Kerry victory. The Democratic presidential candidate has made himself clear on very few policy issues. Taxes are the exception. The senator promises to rescind the Bush tax cuts on capital gains and dividends. This, simply, would raise the price of owning good stocks. Raise the price on anything, and you'll get more sellers than buyers.

The market is discounting a Bush victory. I'm rooting for Bush, but let's be fair and balanced. Bush has fumbled two critical areas of tech. One, the U.S. has slid down the world league of broadband-per-capita during the last four years. Broadband is the platform on which tech will grow. America's platform is weak and tilted (in a regulatory sense) toward the old copper monopolies, the regional Bells. Two, America's immigration policy is also tilted in the wrong direction—toward uneducated workers and against educated ones. How dumb is this? Since World War II the world's top scientists and engineers have risked their lives to come to America. Why raise the bar and make it harder? Listen up, President Bush: Tech CEOs who vote Republican, such as Intel's Craig Barrett and Sybase's John Chen, nearly blow their cerebral arteries when talking about your immigration mismanagement.

Tech stocks are overvalued. You hear this one all the time. Fundamentalists see P/Es going over 15 and they grip the rails, shouting, "Let me off!" But P/E is only one tool for assessing tech stocks. Growth and consumer tipping points are equally important. Right now, amid the carnage in tech stocks, you'll find tomorrow's winners, even if some P/Es look high.

Accounting for options. The argument here is that tech stocks, by expensing employee options, are showing that their earnings were never what investors thought they were. There's some truth here. Not much, but some.

Loss of faith in Google as tech's savior. Google's IPO, the thinking went, would excite investors and pull the sector out of the dumps. Then Google issued bad news about its June quarter, announcing $700 million in revenues and about $150 million in net income (after you add the stock compensation expense back in). These numbers equate to a P/E of about 60 at the assumed IPO price of $120. Would you pay 60 times earnings? In a heartbeat I would … if Google could keep up its torrid growth pace. But, as the June quarter numbers show, Google's growth has slowed to single digits, quarter over quarter. This does not justify an outsize P/E ratio. So there's truth to the argument that Google cannot (and never could) resurrect the tech sector by itself.

Impending inflation. Gold is the great forecaster. When it falls below $300, you know we're suffering deflation, even if economists haven't noticed. Above $400, and you know inflation's coming. Yep, gold speaks, and it says inflation is here, which all stocks hate. Especially those you buy for cap gains, such as tech stocks. This argument holds more than a few gallons of water, I'm afraid.

Long bear market. Investor lions such as Warren Buffett, John Bogle and Bill Gross expect tepid returns during the next ten years. Stocks, they say, have to compensate for the wildly good years of 1982 to 1999. Personally, I don't get this "regression to the mean" argument. Seems like a reinforcing tautology to me. Then again, Buffett is rich and I am not.

There. I've just listed the typical arguments you'll hear as to why tech stocks are in the dumpster. Let me add another of my own. It's a bit novel but, I believe, conforms to the facts: Tech is down because we're witnessing a changing of the guard that's hitting the big-cap companies, which disproportionately make up the Nasdaq index. Thus, tech's future appears grimmer than it really is.

This changing of the guard (tech leadership) has been imposed by a force I've been writing about for the last two years—the Cheap Revolution. Technology is powerful enough so that users don't need to own the highest-priced versions to improve their lives or effect big change. Google cobbles together about 100,000 dirt-cheap servers to perform its search miracle. Google does not buy much pricey gear from the big vendors, and it prefers open-source software.

You'd better believe that developing nations such as China, India and others are taking note. Lesson: You can build a world-class organization with cheap technology today.

Yes, all tech stocks are in a slump. Those on the right side of the Cheap Revolution will emerge in healthy shape. Buy now. Be willing to pay a higher P/E if the company is on the right side of the Cheap Revolution and you like the management.

Which do I like? Dell. Veritas. Altera. And a basketful of hosted Web-services companies that are bedeviling the big enterprise software boys by offering far lower prices. Players here include Agile and Salesforce.com. There are others. Have faith, do your homework and make some money. F

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So That's What Gross Means

Julia Stiles and Mark Amin

Lions Gate Entertainment spent $37 million on *The Prince and Me*, a movie co-written by its vice chairman, Mark Amin. But the flick, starring Julia Stiles as a college student from Wisconsin who falls in love with a Danish prince, has grossed just $36 million—and the studio gets only half. A genuine Hollywood tycoon, Amin, 54, did a lot better. In addition to his $500,000 salary, Lions Gate paid his personally owned Sobini Films $9.1 million to distribute the film abroad. Still, Lions Gate stock has risen 12% since the April release. Amin did not respond to requests for comment. —*Tomas Kellner*

Look Out, Citigroup

Nonprofit credit unions enjoy certain tax exemptions banks don't, but their charters typically limit potential customers to, say, employees of a specific company. In California, however, the regional office of federal regulator National Credit Union Administration just approved the L.A. Financial Credit Union's application to serve everyone who "lives, worships, works in, or attends school in" Los Angeles County—the country's most populous, with 10.1 million residents. Fumes a trade group for small and medium-size banks, "If credit unions want to play like banks, they should pay taxes like banks." —*Janet Novack*

A Fish Story

After Josephine T. Thompson died in 1998, her estate hired Anchorage, Alaska lawyer George E. Goerig to value her 21% stake in New York's Thomas Publishing, which produces the *Thomas Register* directory. Why Goerig? A U.S. Tax Court opinion says that after a family lawyer met him on a fishing trip, he had "apparently represented" he could get a lower value for estate tax purposes sustained on audit up north. Claiming huge hard-to-sell discounts, Goerig and his accountant came up with $1.8 million. The Internal Revenue Service argued for $35 million. Calling Goerig "only marginally credible" and "barely qualified" for this task but also criticizing the feds, the court settled on $14 million. No comment from Goerig. —*Ashlea Ebeling*

Not Happily Ever After

An academic study of hardcover fiction finds that 74% of the books hit their sales peak within four weeks of release. After looking at 1,217 new titles published in 2001 and 2002, Stanford Business School assistant professor Alan T. Sorensen says making the *New York Times* bestseller list at best slows down the decline, with first-time authors faring a little better. Concludes Sorensen, "One rarely observes a book's sales 'take off' after it hits the bestseller list." —*Tatiana Serafin*

Next Benefit: Maps of Mongolia

The Automobile Club of Southern California, with 5.6 million members the nation's biggest AAA affiliate, provides a wallet-size "guaranteed arrest bond certificate," signed by President Thomas V. McKernan Jr., for use if the motorist is stopped for a minor traffic violation. But it includes this printed caveat: "Not valid in some states, including California."—*William P. Barrett*

Could Worcestershire Sue Warner?

The backers of the *Lord of the Rings* movies are threatening legal action against the fledgling British Web site www.shiremail.com. A lawyer for Hollywood's Warner Bros., New Line Productions and Saul Zaentz Co. wrote owner Tarrant Costelloe, claiming the use of "shire" deceives the public into thinking there is an official *Rings* connection. Nonsense, says Costelloe, who posted online the written demand that he hand over the domain. He points out that "shire"—which has been used for a millennium in England—forms part of the name of dozens of towns and counties. —*Dirk Smillie*

No Wonder They Need to Raise Money All the Time

Annoyed with incessant on-air money pleas from public TV stations? Among these highly paid broadcast bosses, not one outlet beats or comes near the average fundraising efficiency of 89% found on the annual FORBES survey of 200 large nonprofits. —*W.P.B.*

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WPBT/Miami, Fla.	George Dooley (just retired)	425,580	5	32
WTTW/Chicago, Ill.	Daniel J. Schmidt	359,920	22	66
KCET/Los Angeles, Calif.	Al Jerome	336,121	43	82
WTVS/Detroit, Mich.	Steven R. Antoniotti	294,056	12	66
WNET/New York, N.Y.	William F. Baker	285,026	117	80
WETA/Washington, D.C.	Sharon Rockefeller	278,171	32	69
KERA/Dallas, Tex.	Gary Ferrell	257,504	10	47

[1]Percent of donations remaining after fundraising expenses. *Source: Latest IRS Form 990 filing on www.guidestar.org.*

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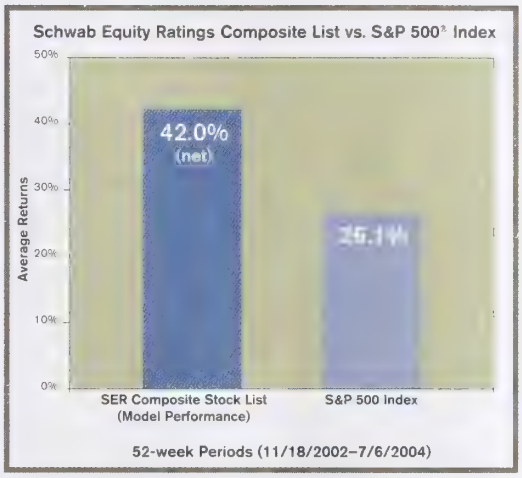

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By **Sally Satel,** A PSYCHIATRIST AT OASIS DRUG TREATMENT CLINIC AND SCHOLAR AT THE AMERICAN ENTERPRISE INSTITUTE.

Painful Correction

OxyContin doesn't cause addiction. Its abusers are already addicts.

"PAIN PILL LEAVES DEATH TRAIL." THIS LURID HEADLINE kicked off the *Orlando Sentinel*'s series on OxyContin, a narcotic painkiller. According to the five-day, front page exposé, published last fall, 205 overdose deaths in Florida in 2001 and 2002 were linked to OxyContin. What's more, many of the victims were innocent patients, taking the medication for pain. They "put their faith in their doctors," said the *Sentinel*, "and ended up dead, or broken." The *Sentinel*'s reporting galvanized Florida politicians. Governor Jeb Bush called for a computerized system to track prescribing of addictive medications. Last winter a Florida congressman and state legislators each held hearings.

In August the *Sentinel* recanted: Its OxyContin series was terribly wrong. Autopsies on two-thirds of the victims uncovered other drugs (e.g., alcohol, heroin, other painkillers) that alone or in combination with oxycodone could have been fatal. (Oxycodone, the active ingredient in OxyContin, has been available for more than 60 years.)

Of the remaining one-third, no one could tell how often OxyContin itself was involved because name-brand drugs were not identified in the autopsies. Only oxycodone is listed, and that compound is also found in Percocet, Percodan and Tylox, which are also abused.

The *Sentinel* had already conceded in a February story that its series falsely portrayed "accidental addict" David Rokisky, 36, a former policeman. Before his use of OxyContin he pleaded guilty to conspiracy to distribute cocaine in 1999. His attorney had told the *Albuquerque Journal* that Rokisky "had problems" with cocaine and steroids.

These two errors—that people are overdosing on OxyContin in huge numbers and that the typical OxyContin addict starts out as a pain patient who falls unwittingly into a drug habit—reflect common misconceptions.

Like all narcotics, OxyContin can be abused, but its virtue is its powerful effect on persistent moderate-to-severe pain. It is not intended for toothaches; it is for unremitting pain from diseases like cancer, neurological illness and deforming rheumatoid arthritis.

Available since 1996, OxyContin is now the most widely prescribed branded narcotic for serious pain. Last year 7.7 million prescriptions were dispensed, generating $1.6 billion in revenue for the drug's maker, Purdue Pharma in Stamford, Conn. Its popularity is due to the fact that it is taken only twice a day. Other narcotic painkillers have to be taken every 3 to 6 hours. The 12-hour controlled delivery keeps blood levels steady, an important feature when pain is constant and severe. The name OxyContin, in fact, is from *oxy*codone and *contin*uous. And it is strong. For comparison: The strongest dose of a single Percocet pill contains 10 milligrams of oxycodone (plus acetaminophen), while OxyContin (which is pure oxycodone) has up to 80mg per pill.

"The animus toward OxyContin fits the popular cultural narrative that frames drug companies as rapacious, self-interested entities that hurt consumers."

Problems arise when the pill is crushed or chewed (thereby destroying the slow-release feature) and people snort or inject the contents for a euphoric rush similar to that delivered by heroin. Not surprisingly, the typical OxyContin abuser already has current or prior substance abuse problems. In other words, he is someone who seeks out the pill precisely because it can produce a spectacular high when crushed.

This has given the medication a serious image problem. A month before the *Sentinel* series appeared, the *New York Times* cited a member of a Food & Drug Administration advisory panel as pronouncing OxyContin to be responsible for 500 to 1,000 deaths a year, an estimate that has no basis in fact.

Yes, there are problems. Some doctors hand it out liberally, and there are cities where OxyContin is relatively easy to buy on the street. But in those regions drug abuse is not a new scourge. For example, Kentucky's 2001 drug-abuse raid, called Operation OxyFest, resulted in the arrest of 207 people. But in 1992 (before OxyContin even existed) another statewide sweep of illegal drugs resulted in 543 arrests. There were 27 oxycodone-related deaths in 2000 in Kentucky. In all but 2, however, additional drugs, including cocaine, heroin, other prescription painkillers and

DAVID DEAL/COLUMBUS

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BRITISH AIRWAYS

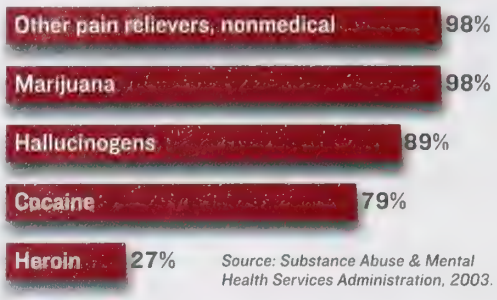
alcohol, were found in the bodies.

The Kentucky picture reflects a national trend. In 2003 the *Journal of Analytical Toxicology* reported on deaths related to oxycodone in 23 states over 29 months. In only 12 of the 919 drug-abuse deaths (1.3%) was OxyContin found alone.

In December 2003 the General Accounting Office summed up its investigation on OxyContin: "While Drug Enforcement Administration field offices continue to report OxyContin as a drug of choice among abusers, [it] has not been and is not now considered the most highly abused and diverted prescription drug nationally." That distinction goes to hydrocodone.

Users and Abusers

Among recreational OxyContin users, percent who have used other drugs.



Source: Substance Abuse & Mental Health Services Administration, 2003.

Yet OxyContin's maker is taking heat. To date, more than 300 suits have been brought against Purdue Pharma for failing to warn consumers of the risk of addiction. "They are corporate drug lords," says the lawyer representing a group of Virginia residents.

Such resentment may be part of the overall animus toward OxyContin. After all, it fits the popular cultural narrative that frames pharmaceutical companies as rapacious, self-interested entities that hurt consumers—sick, vulnerable consumers to boot. Add trial lawyers salivating at the thought of a product liability payday, and media that cannot resist the story of a villain (drug company) and a fair maiden (patient), and you have the script for a modern-day health scare.

The most worrisome consequence of the hype about OxyContin's dangers is that patients, and some doctors, have become fearful of it. The American Pain Foundation receives calls from patients who are doing well on the medication but are afraid to continue even though it is well established that addiction—the compulsive use of a drug to regulate one's mood—occurs infrequently among individuals who take OxyContin as prescribed.

The problem isn't OxyContin itself, but its deliberate misuse. The *Sentinel* apologized for having "created the misleading impression that most oxycodone overdoses resulted from patients' taking the drug to relieve pain from medical conditions." That misimpression has caused a lot of unnecessary pain. F

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[ANOTHER REASON PSEG HAS WALL STREET'S ATTENTION]

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SEPTEMBER 1, 2003

Whither the Wireless Wonders?

The 2003 Forbes E-Gang: Kris Pister, Guenter Weinberger, Ed Thomas, Stephen Tang and Mei Chuah.

Last year's FORBES E-Gang *(see p. 144 for this year's group)* featured five luminaries in the field of wireless communication. Two of our picks have left their jobs, while three are steaming ahead.

First the dropouts. Mei Chuah, 32, who was developing new wireless technology for Accenture Labs, quit her job in January. Why? "I just wanted to take time off," is the only explanation she'll offer. An Accenture spokeswoman confirms that Chuah left voluntarily. Stephen Tang was replaced as chief of Millennium Cell, a company that makes hydrogen storage and delivery systems for tiny fuel cells, by board member H. David Ramm. The Eatontown, N.J. company is ramping up its efforts to develop energy sources for smaller wireless devices like laptops and cell phones. The company says it will introduce a hydrogen storage prototype for the Air Force in early 2005.

Now for the other three: Sandbridge Technologies Chief Guenter Weinberger expects his "flexible" chips to go into production early next year and start showing up in cell phones the year after that. Flexible chips allow phones to work on any cell network or even hook into Wi-Fi networks.

Edmond Thomas, head of the Federal Communications Commission's Office of Engineering & Technology, is still attacking some of the dopiest, outmoded regulations. In July, with the backing of Thomas' office, the FCC rewrote rules that imposed the same tight limits on wireless gadgets in New York City (where potential interference requires strict rules) as in rural Iowa (where the sparse population makes rigid limits pointless).

Kris Pister, founder of a Berkeley, Calif. firm that builds networks of self-organizing, millimeter-size sensors, left the chief's job to concentrate on research. His company, which this spring renamed itself Dust Networks from Dust Inc., has yet to introduce a commercial product. Dust recently raised $7 million for a set of building sensors that can measure temperature, and will run for up to ten years on a pair of AA batteries. —*Scott Woolley and Quentin Hardy*

FLASHBACKS

85 YEARS AGO IN FORBES | JULY 12, 1919

Greek to Us Colleges and universities are overhauling their courses. The tendency is to relegate Greek and Latin into the background. The head of Western Reserve University declares that increased emphasis will be given the "so-called newer humanities, or social sciences. Economics, political science and sociology are to be enlarged." This statement is worthy of the attention of every businessman. The most pressing problem of the hour is not how to define the exact shade of meaning between this and that Greek word, but how to bring about a workable, sensible relationship between what we call capital and labor.

25 YEARS AGO IN FORBES | AUGUST 6, 1979

Molson's Golden Goose The late great Canadian liquor baron, Samuel Bronfman, had an aphorism about marketing: "Price makes perfection." Something magical happens to Molson's Golden Ale when it crosses the border to the U.S.: A bottle costs from 50 cents to 80 cents in a store in the U.S. In Montreal, 35 cents Canadian (30 cents U.S.) plus bottle deposits. So U.S. beer drinkers pay up to 2½ times as much because Molson's is "imported." Beer fanciers agree that Molson's is an excellent product, with more taste and body than the typical U.S. brew. But taste alone doesn't sell 725,000 barrels. Like Sam Bronfman said: Price makes perfect.

Molson and Adolph Coors are merging, creating the world's fifth-largest brewer.

15 YEARS AGO IN FORBES | MAY 1, 1989

Schwab Story How has Charles Schwab, the 51-year-old chairman of the discount brokerage that bears his name, coped with hard times? He shelved all plans for branch expansion in the U.S. and overseas. He cut $13.5 million out of annual payroll expenses with layoffs and selective pay cuts—including docking his own pay 20% for six months. He also raised prices. With little effect on business, Schwab Corp. put through an average 10% commission hike in March of 1988 and started charging $18 a year for once-free IRA accounts.

Charles Schwab is running the struggling company again after ousting chief David Pottruck.

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The Song Remains the Same

The iPod is a smash success. But is it really that good for Apple? BY VICTORIA MURPHY

IN AN AUGUST MEMO TYPED FROM his hospital bed, Steve Jobs—Apple's chief executive, patriarch and media impresario—let his employees know he would be out for a month to recover from surgery to remove a rare form of pancreatic cancer. Patients with this type of cancer, called an islet cell neuroendocrine tumor, have a 90% survival rate, especially if treated early. Apple says Jobs is due back in September.

A Jobs-less Apple is tough to imagine. The Monday after the memo was made public, shares fell 2%, the Nasdaq was flat. With his silver beard, round specs and trademark black mock turtleneck, Jobs personifies Apple and its brand: hip, independent and gleefully geeky. He drives its design and marketing prowess and is chief credit-taker for the iPod's wild success. (Name another product to hit $1 billion in three years.)

"Apple is nothing without him," says Jobs cohort and Frog Design founder Hartmut Esslinger.

Picking the blue pixel's hue: Apple's Steve Jobs.

The board of directors says a secret succession plan is in place should Jobs ever be unable to run Apple. "We're not avoiding the subject. Succession is clearly part of our ongoing discussions," says Apple director Millard (Mickey) Drexler, also chairman of J. Crew.

But who could replace the Valley Svengali who personifies the Apple myth? In contrast to reassuringly public successions at Intel, Microsoft and Dell, Apple has no number two. "That's a box we don't belong in," says Apple spokeswoman Katie Cotton. Sales chief Timothy Cook (heard of him?) is running things in the interim, but he is an unlikely successor, a worker bee with 12 years at the Evil Empire: IBM.

In three years Jobs has been the center of a dozen gushing stories in major business publications; only one went to the duo behind the iPod, Avadis Tevanian Jr., Apple's chief designer, and division head Jonathan Rubinstein. "Down to the hue of blue pixels, Steve will let you know what he thinks," says one ex-Apple designer.

The iPod is a raging success—but not the rest of Apple. By some estimates Apple, now at $11.9 billion in market value, would be worth $15.1 billion broken up, jettisoning the Macintosh business *(see chart)*. In a Microsoft-dominated world, Mac's share is down to a scant 2%, and the business is valued at less than one-half times sales, one-fourth the level at Dell.

Then again, Apple stock has doubled in two years and trades at 37 times projected earnings (versus 25 at Dell). That owes mostly to the iPod. In the past year iPod sales have more than doubled to $890 million, 12% of total sales and roughly 30% of Apple's $247 million in earnings before taxes, interest and nonrecurring items. (Song sales at iTunes are near $90 million a year.)

But the bet on iPod is a risky one. Many stores run out of the popular Mini iPods, and Apple can't say when supply will catch up. New music players from the likes of Dell, Sony, Gateway, Creative Labs and Rio are set to launch before Christmas, some at a lower price than iPod's $249 Mini. Creative's device has longer battery life, and the Singapore firm is shamelessly emulating the iPod's white earphones and sleek design.

Already Apple's margins on the music players are shrinking. The iPod's operating margins peaked at 13% in December and, since then, have fallen a jolting five points. (These are estimates. Apple doesn't break out profits by product line.) The gadget's price is down so much this year that Apple will have to sell 20% more iPods next year to maintain profits; no problem, as analysts expect a 70% rise.

Falling prices are fine if Apple, like Dell, were getting more efficient. But it isn't, and it never really has been. In 2000, when overall sales were 4% higher than now, Apple's operating margin was 9%. Today it is a mere 3%. Head count is up 32% from 2000, and sales per employee are down from $930,000 to $674,000.

The iPod was supposed to create a halo effect, drawing lots of new customers to Apple's stagnant desktop and notebook lines, which still account for 64% of sales. But, with the exception of a nice 14% sales increase in Macs and iBooks in the June quarter, Apple's core Mac line has remained flat. In its defense, Apple says half of the buyers at its 81 stores are new converts.

The Mac's decline over the years owes in part to Jobs' insistence on confining the Mac's vaunted software design to Apple-only products. Yet Jobs has taken similar steps with the iPod. It plays songs downloaded only from Apple's iTunes site, unless you insert a CD; no other downloads welcome. And iTunes songs can play only on the iPod.

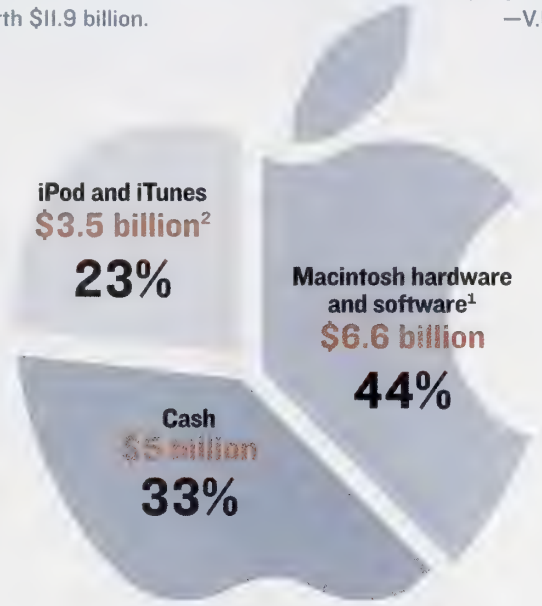
In July RealNetworks unveiled a hack to let an iPod user bypass iTunes and grab songs from Real's music Web store. Apple said it was "stunned" and is examining the legality of the move, but hasn't tried to block it. Real also is cutting the price of its downloads from 99 to 49 cents, well below iTunes' prices.

Hmmm. Falling prices, a penchant for proprietary design and a raft of new products from big rivals, with most of them running Microsoft software. Somehow, it all sounds awfully familiar.

Sliced and Diced

Apple's hot now, but it has been a lousy stock for the buy-and-hold crowd. Shares are up 70% in ten years, half the rise of the S&P 500 (up 136%) and badly trailing the Nasdaq (up 130%). Nor is it very good at deploying capital. Return on equity is 2% annually, compared with 27% for Microsoft. Apple lovers would have done better putting their money into a savings account.

So might Apple be better off broken up? Then Steve Jobs could focus on what he does best, running a 100-person design shop—black turtlenecks required. A rough sum of the parts arrives at a $15.1 billion valuation for a company now worth $11.9 billion. —V.M.

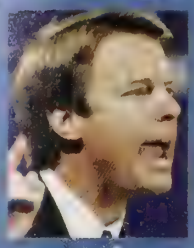


Estimated break-up value: $15.1 billion
Current market value: $11.9 billion

[1]Includes peripherals. Based on one times 12-month trailing revenue of $6.6 billion.
[2]Based on 3.6 times 12-month trailing revenue of $977 million.
Sources: Apple financials; Marlin & Associates; Merrill Lynch.

Campaign Rhetoric

BY MATTHEW MILLER



Set for Life?

Democratic vice presidential candidate John Edwards says there are two Americas: One, "set for life," consists of people who don't work; the other is people who struggle paycheck to paycheck. Intended image of the first group: idle aristocrats. But just who are these nonworkers?

- Children: 72 million
- Retirees: 33 million
- College students: 11 million
- Unemployed: 8 million
- Disabled: 8 million
- Stay-at-home moms: 5 million
- Gave up looking for a job: 3 million
- Prisoners: 2 million

Sources: U.S. Census Bureau; Bureau of Labor Statistics; Social Security Administration; Department of Justice.

Saving the Family Ranch

President Bush talks touchingly of "America's farm and ranch families." To help them he signed a ten-year, $180 billion farm subsidy bill. The top 10% of recipients get 65% of the loot. These were among the lucky beneficiaries in 2002:

- Riceland Foods: $110 million
- Cargill: $11 million
- John Hancock Mutual Life Insurance: $2.3 million
- Representative Doug Ose (R-Calif.): $70,000
- Chevron: $69,000
- David Rockefeller: $24,000
- Eli Lilly & Co.: $17,000
- Kenneth Lay: $6,000

Source: Heritage Foundation

Make It Up With Volume

What to do with dud software? Give it away and declare victory.

BY DANIEL LYONS

THE LATEST CRAZE IN SOFTWARE: giving stuff away. BEA Systems, Computer Associates and IBM all recently started releasing the source code, or underlying instructions, for some programs, which amounts to distributing those products free. Even the loosest definition of incentive rebates would probably stop short of 100% discounts, but then the economics of software are peculiar *(see story, p. 161)*. The giveaways were celebrated, especially by the noisy "open-source" movement, which wants all software distributed this way. (They're not kidding.)

These freebie programs don't have a lot going for them in any case. Computer Associates opened up its Ingres database program—which is 25 years old and has a 0.4% market share, according to market researcher IDC. IBM open-sourced a database called Cloudscape, which is even less popular.

Is this a little bit like the IRS offering to give away free copies of its Form 1040? The software makers insist giveaways will

spark interest in sagging products. They vow they'll make money by selling lucrative maintenance contracts. But the real goal could be to hurt Microsoft.

Computer Associates and IBM reckon their freebie databases can steal sales of Microsoft's SQL Server database. Similarly, in May BEA Systems open-sourced some programs for creating Web applications, aiming to thwart Microsoft's .NET suite of Web programs. BEA organized a project called "Beehive," in which packs of developers, playing Lilliputians to Microsoft's Gulliver, can jointly write alternatives to Microsoft's programs, using the Java programming language, which Microsoft shuns.

Microsofties call the giveaways a desperation move. "When commercial software gets open-sourced, it is typically an admission of failure, an exit strategy or a sign that vendors are deluding themselves into thinking they can 'make it up with volume,'" says Charles Fitzgerald, a general manager at Microsoft.

In a recent Forrester Research survey, 56% of customers called Microsoft's .NET their primary programming package, while BEA, IBM, Oracle and others in the Java camp split the remaining 44%. BEA's sales of new software licenses are declining. In August, Gartner, a research outfit, warned customers to hold off buying BEA software.

Nobody is declaring victory for Microsoft in Web software, but it's worth remembering that, in high tech, winners don't have to share. While rivals resort to giving products away, Microsoft gets paid real money for its efforts. F

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Retirement Plan

Corporate chiefs love lower dividend taxes. Just ask Leonard Tow | BY NATHAN VARDI AND SCOTT DECARLO

Making room for bigger pockets: Tow.

AT AGE 76, LEONARD TOW DECIDED to call it quits. His nest egg is now a sliver of the $1 billion-plus it was once worth, thanks to the Adelphia Communications meltdown. Tow's shares of the disgraced cable company, acquired when he sold his Century Communications to Adelphia in 1999, are nearly worthless.

To cushion the fall, Tow still has claims on Citizens Communications, a Stamford, Conn. provider of phone service to rural areas. He tried earlier this year to sell the company (market cap: $4.2 billion). Potential buyers like Blackstone Group and Carlyle Group thought it was overpriced. So Tow asked his board in July to pay fat dividends, exploiting new 15% tax rates.

The special one-time dividend—$2 per share—comes in September. But it doesn't end there. The company also announced a regular annual dividend of $1 per share, the largest in its history.

All in all, a nice retirement package, thanks to Tow's accumulation of 8.5 million Citizens shares as of February 2004, largely via compensation awards. Then in March the board gave him 200,000 restricted shares while it explored its "financial and strategic options." At the same time the dividend plan was announced, Tow gave notice of his retirement, triggering 300,000 shares to him and his family, plus 114,000 shares that converted from phantom stock units and 1.8 million shares to satisfy company obligations to him, say SEC filings.

This month, when Citizens starts paying the dividends, Tow's family will pocket $24 million. There's more. The company paid Tow $9 million in cash as a retirement payout ($3.2 million for agreeing to not stay on as an adviser). That doesn't include company health insurance and benefits (up to $2 million). Or the fact that Tow keeps his chauffeur and secretary, and use of the company jet, which Citizens bought from him for $17.6 million in 2002, for two years.

Is the old guy worth it? Since becoming chief executive at Citizens in 1990, Tow has collected $49 million in compensation, including stock. In the last 14 years Citizens gave shareholders an annualized total return of 6%, versus 11% for the S&P 500 index.

Where does the dividend dance leave the company? Poorer by $675 million after the first payout. As a result, Standard & Poor's downgraded Citizens' debt two notches to junk status at BB+. Moody's Investor Service and Fitch made similar moves, noting the company will use cash reserves for the special dividend and 73% of its free cash flow to pay the regular dividend. Jefferies Group analysts would like to see Citizens continue to reduce its $4.4 billion in long-term debt. Particularly since second-quarter income fell 30% on lower revenue from access and long-distance service.

No complaints from stockholders. Since Tow retired, shares have risen 8% to $14. Citizens is searching for a new chief executive. Candidates must be falling over one another to get such a gig. F

HARVEY AND ME

At a time when its business is booming, with box office receipts topping $1 billion and profits $200 million, a company lays off 13% of its work force, shoving innocent workers into the streets. Sounds like one of those bandit-capitalist outfits that filmmaker Michael Moore blasts in movies like *Roger and Me*, right? Er, not exactly. It's the guys who financed and helped distribute Moore's latest hit movie, *Fahrenheit 9/11*—Robert and Harvey Weinstein.

Miramax, their New York City film production company, is rolling in dough, but it is still cutting 65 of its 485 employees. Will Moore go to bat for Miramax's workers? Will he show up outside the Weinsteins' offices with a bullhorn and a camera crew? Will he chase Harvey around town the way he chased Roger Smith of General Motors after GM laid off autoworkers in Flint, Mich.? Don't hold your breath. —*Daniel Lyons*

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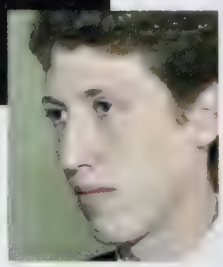
Bahamian Brouhaha

A public offering for Hyatt? Maybe. But first, a courtroom in the tropics | BY STEPHANE FITCH

JUST WHEN THE PRITZKERS SEEMED ready to settle financial and personal differences, here comes a new fight—in a courtroom offshore.

The famously feuding family seemed to be preparing for a public offering of its largest asset, Hyatt Corp. Sources close to the clan say there is groundwork under way, including tipping off new executive recruits to the possibility of an offering or outright sale of the hotel chain—as leaked to the *Chicago Tribune*—and, next, getting the bookkeeping and legal departments in synch with Sarbanes-Oxley requirements.

Still, there might never be a sale of any kind if the family can't resolve who owns what. Siblings Liesel and Matthew Pritzker, 20 and 22, sued their older cousins in Chicago, claiming they are each owed at least 4% stakes in Hyatt and Hyatt International. Last April a Cook County judge allowed the sibs' case to proceed. But he cited jurisdiction limits, dismissing matters involving family trusts offshore that control Hyatt International and other companies.



Same faces, new venue: Liesel and Matthew Pritzker v. Pritzker.

The new legal fight, filed under seal in Nassau in April, deals with those offshore trusts, assets totaling some $3 billion. The suit's opening shot was fired on Apr. 2, by cousins Penny and Jean (Gigi) Pritzker, close allies of family patriarch Thomas Pritzker. Their complaint took aim at the Canadian Imperial Bank of Commerce, which controlled Liesel's and Matthew's trusts until last year, and investment manager Brown Brothers Harriman, hired in June 2003 by the sibs to take over from CIBC. People familiar with Penny and Gigi's complaint say they wanted the Nassau court to bless transactions CIBC had made between the siblings' trusts and those of their cousins back in 1996, swapping substantial assets from the sibs' trusts to their cousins' for unsecured low-interest IOUs. Such a court ruling would give Penny, Gigi and others clearer title to the assets.

Matt, Liesel and Brown Brothers returned fire on Apr. 27 to block Penny's suit. A separate claim against CIBC seeks compensation for "breach of trust" in the 1996 deal and asks a judge to reverse the old trades.

A judge says the sibs can begin forcing CIBC to cough up relevant documents. The bank has been involved in the family's network of offshore trusts for decades—and some Pritzkers will undoubtedly fight to keep the records under wraps. F

Advocate Or Promoter?

The IRS doesn't like a Seattle lawyer's theories about options tax | BY JANET NOVACK

AS THE SECOND EMPLOYEE OF InfoSpace, Jean-Remy Facq saw the value of his stock inflate and then collapse. Now he's suing in federal court in Seattle for a $4.5 million refund of 1999 federal income tax. He's just one of 200 tech workers who have hired Seattle tax lawyer/CPA Brian G. Isaacson in the hope his novel theories will help them slash old (and sometimes unpaid) tax bills from their exercise of stock options for shares that later tanked.

Where they see relief, the Internal Revenue Service smells a rogue. It is examining whether Isaacson is liable for penalties for promoting abusive tax shelters or aiding the understatement of tax. In July it demanded the names of all his clients and of folks who filled out an options questionnaire on his Web site—another 800 taxpayers, he estimates. And in March the IRS warned taxpayers they could face civil or criminal penalties for taking "frivolous" legal positions that sound like Isaacson's.

"It's a bullying tactic by the IRS," complains Don Paul Badgley, whose Seattle firm works with Isaacson's. In August Seattle federal Judge Thomas Zilly froze the promoter examination, essentially telling the IRS to lay off Isaacson while he was litigating the issues for his clients.

The IRS should be able to find Isaac-

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son's clients in its computers—he says he signed all the returns, complete with his preparer ID, and disclosed the theories behind his claims. Disclosure makes it harder for the IRS to impose penalties, provided a taxpayer has some basis for his claim.

Isaacson predicts perhaps half of his clients will end up in bankruptcy if his theories don't prevail in court. Microsoft employees Gilbert and Barbara Espejo are already there. They filed for Chapter 11 in May 2003 to stall IRS collectors while Isaacson argues they don't really owe $568,000 in back option taxes. When they filed they had a net worth (not counting IRS debt) of $1.4 million and owned a 57-foot yacht. No decision yet.

Here's an example of Isaacson's

The IRS wants names of folks who filled out a Web survey.

theories. Some clients did a "cashless exercise" of nonqualified options, borrowing from a broker all the funds needed to exercise and to cover the withholding taxes on exercise. Ordinarily, with nonqualified options, the value of the stock over the exercise price is taxed as salary. When the market dropped, they lost the shares to margin calls. Isaacson reasons the terms of the loans made them "nonrecourse" (meaning the employee's other assets weren't at risk) and that 1971 IRS regs on nonrecourse loans mean the shares shouldn't have been valued and taxed until the margin call, when they were worth less.

It probably won't fly, but who knows? In January Isaacson had a big procedural win when the U.S. Tax Court ruled that clients of his were entitled to a hearing before the IRS levied their property. The government had characterized their position as "nonsensical." F

From Blackheads to Warheads

A celebrity dermatologist diversifies into missile defense.

BY LEA GOLDMAN

YOU MIGHT THINK THAT VERY LITTLE COULD FURROW THE BROW OF DERMAT ogist Nicholas Perricone. Yet lately the namesake behind the $90 million (sa empire of exquisitely expensive skin care products has looked like an ideal car date for his 2002 book, *The Wrinkle Cure*, which lasted 25 weeks on the *New Y Times* bestseller list. What's plaguing the good doctor? "Shoulder-fired missiles," he expla "I'm hugely concerned that commercial aircraft are vulnerable."

He'd be the first to admit that making Alpha Lipoic Acid spider vein treatment doe qualify him as an expert on rocket motors. Still, as Perricone says, several thousand of 750,000 Manpads (man-portable air-defense systems) remain unaccounted for. These he seekers, which can target engines and exhaust plumes of planes three miles up in the air, be had for as little as $1,000 apiece on the black market—about what a couple 2-ounce jars of Perricone Neuropeptide Facial Conformer costs. The FBI recen nabbed two mosque leaders in Albany, N.Y. for an alleged scheme to buy a Manp

Perricone, 56, a certified pilot, has invested some $100,000 in PerriQues venture of three researchers at Texas A&M University who, within eig months, devised a method of shielding an aircraft's heat signature fr on-the-ground rocket-launchers. (More than that they won't say.) Per cone estimates the cost per plane at just $300,000 and is hoping to sell technology to the Department of Homeland Security, which has alrea doled out $6 million in grants to UAL, Northrop Grumman and BAE S tems to devise their own antimissile systems.

There are detractors. "The idea's been around for years, and its eff tiveness against modern threats is questionable," says F. Jack Pledg director of Northrop's infrared countermeasures unit, which is produ ing laser systems to defeat heat-seeking missiles.

No matter; there are always new body creams to conquer. Dubbed "B Franklin" by pal Senator Joseph Lieberman, Perricone is developing a Super S dier lotion made of neuropeptides which offers the hope of a two-hour slu ber that mimics the effect of a full night's sleep—and has alleged benefits those with post-traumatic stress disorder.

That could come in handy if the missile shield doesn't pan out.

A call to duty that's more than skin-deep: Nicholas Perricone.

Financing your drive.
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My Son, The Bodyguard

Forget law school. Get your kid to enroll in a counterterrorism school.

BY DIRK SMILLIE

Professors of protection: Nirmalya Bhomick and his antiterror faculty.

NIRMALYA BHOMICK, A THAI KICKBOXING CHAMPION AND FORMER bodyguard to Nepal's royal family, knows a market opportunity when he sees one. He recently sank $2 million of his money, for a 70% stake, to start a school in San Jose for counterterrorism studies, the California University for Protection & Intelligence Management (Cupim).

Here, when not taking online courses on subjects like cryptology, identity manipulation and bomb defusing, students pay to be threatened with Taser guns, thrown into mud pits and subjected to deafening rounds of live ammo fired over their heads. One student, Elizabeth Rainville, a financial analyst at Pratt & Whitney's space division who moonlights as a bodyguard, found herself bound, doused with water, forced to kneel in front of a fan and interrogated by hooded thugs who had earlier abducted her. The good news for this pass/fail course is that she passed.

Bhomick, whose private work includes heading security details for senior Microsoft executives on trips overseas, charges $27,000 for the two-year bachelor's degree, and the place isn't accredited yet. That's a big piece of change for the average security guard, who makes $19,140 a year.

"We're weeding out the Neanderthals," argues Peter Rugato, Cupim's chief executive. "Companies want brain stems on their security people, not walking refrigerators."

Since January Cupim has reeled in 200 applicants from private security companies and law enforcement agencies like the FBI and CIA. Among the 40 now enrolled is a personal bodyguard to Afghan President Hamid Karzai.

Cupim will have to throttle competition from dozens of private and government training programs. The University of Southern California just pocketed $12 million to develop a Homeland Security Center that will offer a master's degree in counterterrorism studies this fall. F

End Games

Even a selloff could end badly for Toys "R" Us.

BY DANIEL KRUGER

CAN TOYS "R" US DO NOTHING RIGHT? THE chain has been so badly outmaneuvered by Wal-Mart and Target that it couldn't even get its surrender act together. Putting off the inevitable for so long—all but retreating from its toy business and hiving off its Babies "R" Us division—will cost it and investors plenty. Here's why:

Self-inflicted wounds. After a decade of strategic missteps and serial restructuring charges, Toys sprinkled bits of bad news starting in November, instead of taking its lumps all at once. No wonder shares recently sank 9% in three days.

Blown opportunity. Toys "R" Us values its properties at $2.3 billion. Good luck getting anything close. Waiting a year to put its 683 domestic toy stores on the market could easily cut 10% from whatever total the company eventually sells. Why? Rising interest rates, along with the fact that there's a swelling sea of other struggling retailers eager to dump stores—and a dearth of big buyers for it all.

Rotten timing. Toys makes all its profits in the fourth quarter. So why screw up vital relationships with suppliers and employees on the cusp of its bestselling season?

Sloppy christening. Separating Babies "R" Us from a weary parent is a good idea—one that should have happened soon after 1998, when the baby chain had proven itself. But by delaying for so long, Toys allowed Wal-Mart and Target to start building up rival operations, hobbling its most successful operation. F

TOYS 'R' US

THOMAS BROENING FOR FORBES; TIM BOYLE / GETTY IMAGES

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Splooosh!

The nation's fleet of waterbombers sits grounded at the height of fire season. What can replace them?

BY ALAN FARNHAM

IN MAY THE U.S. GOVERNMENT grounded all 33 of the big planes it uses to fight fires. The reason: three fatal crashes in two years, including two in which planes' wings snapped off in midair. Owned and operated by private contractors, these aircraft are old, 47 years on average. With the bombers out of service, property owners in California and other tinder-dry western states worry that a crucial weapon has been deleted from firefighters' arsenal.

Now comes the mother of all replacements: the Evergreen Supertanker—a modified 747 that packs a 24,000 gallon wallop, seven times the load of the next-biggest bomber. It represents an investment of $10 million by Evergreen International Aviation (2004 revenue: $535 million), a McMinnville, Ore. provider of aircraft services, mainly to the U.S. military. Penn Stohr, Evergreen's director of Supertanker operations, says the plane could be certified as early as September, in time to fight this year's fires.

Where conventional waterbombers fly low, dropping loads at about 150 feet, the Supertanker lets loose at 400 to 800. Rather than just dropping water (or retardant gel) by gravity, it expels it under pressure through nozzles. The result, says Evergreen, is more effective than a low-altitude release because dispersal is more controlled and even. Concerns that the weight of the drop could injure people on the ground seem unfounded. "We were pretty impressed," says Michael Padilla, chief of aviation for the California Department of Forestry & Fire Protection, after observing a test in April. "The drops were a lot gentler than what one would expect. The gel came down like heavy rain. Even flowers on the cactus were intact."

Evergreen intends to produce a second Supertanker, and Stohr foresees building perhaps half a dozen that his company would own and operate. He envisions Supertankers dropping chemicals at sea to disperse oil slicks or, for homeland security, neutralizing airborne biological hazards.

Evergreen has yet to price the Supertanker's services, but potential customers expect them to be costly. "I'm thinking $20,000 an hour," says Padilla. That's more than twice the most recent rate of the now grounded 4,000-gallon bombers. Of $7 billion spent on wildfire suppression since 1994, only 15% to 20% has gone to aircraft. But politics could change that. "You get a fire," says Padilla, "and the treasury opens up."

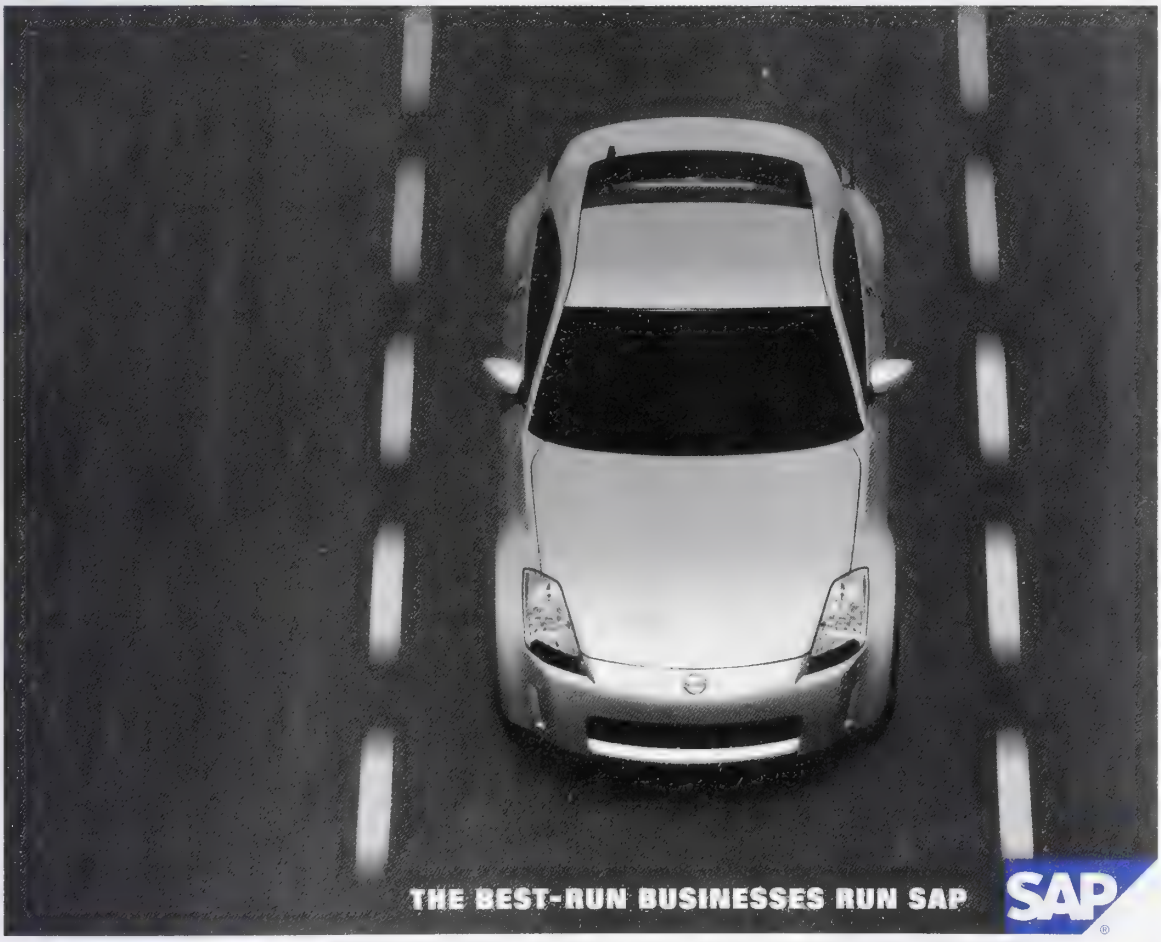
Evergreen could use the money. In July Moody's downgraded $215 million of its senior debt to a junk rating, noting that Evergreen had lost substantial business from its biggest customer, the Department of Defense Air Mobility Command. Revenue for 2004 fell 7 earnings 36%.

Other companies touting their o aerial solutions include Boeing, wh proposes fighting fires with beachba size biodegradable spheres (filled w fire retardant) dropped at high altitu from C-17s. "Only Walt Disney co have thought that up," snorts Sto who contends that dropping spheres from such high altitude wo require sophisticated targeting. Th there's the Russian-made IL-76, a mi tary transport that has been modifi for waterbombing, and the Bombardi 415, a Canadian flying boat that sco up water as it skims the surface of a la or river.

But if it's a big flying boat you' after, you'd best call Evergreen: In 19 founder and chairman Delford Smi 74, acquired Howard Hughes' fabl "flying lumberyard," the Spruce Goose. It sits in a museum near Evergreen's headquarters.

One fell swoop: Evergreen's Supertank can drop 24,000 gallons of retarda all at once or in sequential pass

NISSAN RUNS SAP



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Power Women

The women who are changing not only the societies where they work, but also the role of women in power.

BY ELIZABETH MACDONALD AND CHANA R. SCHOENBERGER

4 Laura Bush

8 Megawati Sukarnoputri

2 Wu Yi

"I DON'T MIND HOW MUCH MY MINISTERS TALK," BARONESS Margaret Thatcher once said, "as long as they do what I say." The former British prime minister long ago defied the conventional wisdom that women can gain power only by studiously working behind the scenes to forge consensus. That's why she and 99 other leaders in politics, business and social causes have made it to the first FORBES ranking of the world's most powerful women.

How do you measure relative power? Realistically, it's hard to quantify the differences between, say, a chief executive and a Supreme Court justice. They wield power in vastly different ways.

But we attempted the impossible—comparing the incommensurable—by creating a power scorecard. For each candidate we came up with a numerical weight defined by her title and résumé; the size of the economic sphere in which she wields power (a foundation is measured by its endowment, a country by its GDP); and the number of global media mentions. We threw in some subjective adjustments—more weight to a current head of state than a former one, for instance. Finally, we sought the advice of the pros who study women at Catalyst, a nonprofit research group in New York, and Laura Liswood, secretary general of the Council of Women World Leaders, who helped vet candidates.

1 Condoleezza Rice

Is this approach arbitrary? Sure. But it turned up lots of surprising names often overlooked. That includes women who have broken through the glass ceiling, such as Christine Lagarde (No. 76), a Frenchwoman who runs the law firm Baker & McKenzie. We also got reacquainted with famous do-gooders, like Queen Rania of Jordan (No. 13) and Carol Bellamy (No. 95), head of Unicef. Corporate leaders caught our eye, too, like Ho Ching (No. 24), the most powerful woman executive in Singapore.

The full list, with bios, can be found at forbes.com. F

10 Carleton S. Fiorina

—With research by Cecily Fluke, Lesley Kump and Deron Browne.

The Top Ten

1 **CONDOLEEZZA RICE** National Security Adviser, U.S.
2 **WU YI** Vice Premier, China
3 **SONIA GANDHI** President, Congress Party, India
4 **LAURA BUSH** First Lady, U.S.
5 **HILLARY RODHAM CLINTON** Senator, U.S.
6 **SANDRA DAY O'CONNOR** Supreme Court Justice, U.S.
7 **RUTH BADER GINSBURG** Supreme Court Justice, U.S.
8 **MEGAWATI SUKARNOPUTRI** President, Indonesia
9 **GLORIA MACAPAGAL-ARROYO** President, Philippines
10 **CARLETON S. FIORINA** Chairwoman and Chief Executive, Hewlett-Packard, U.S.

RICE HAARUYOSHI YAMAGUCHI / REUTERS / LANDOV. BUSH FRANK VERONSKY / CORBIS OUTLINE. SUKARNOPUTRI YURI KADOBNNOV / AFP. YI DENNIS BRACK / BLOOMBERG NEWS FIORINA PETER KRAMER / GETTY IMAGES

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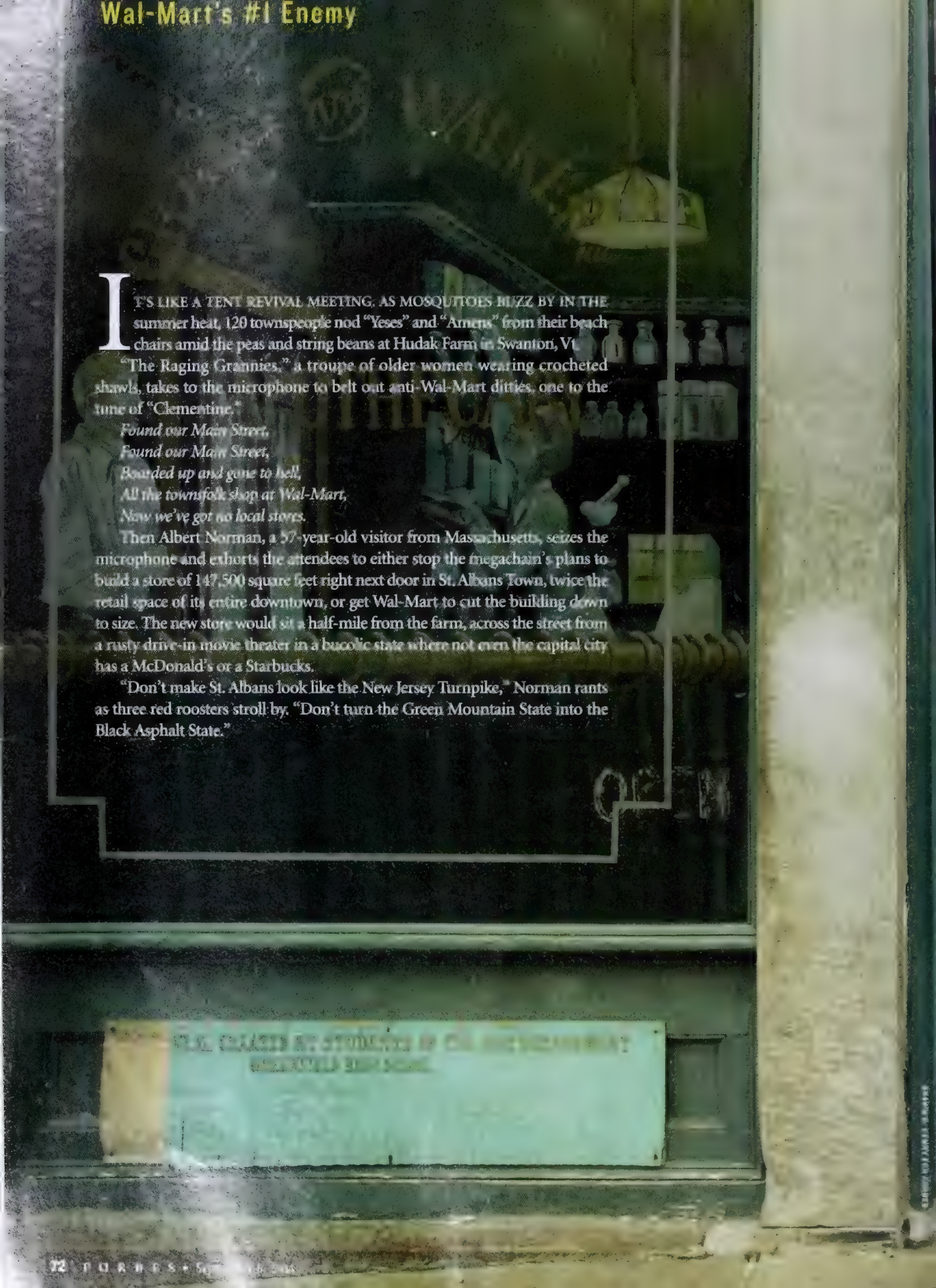

IT'S LIKE A TENT REVIVAL MEETING, AS MOSQUITOES BUZZ BY IN THE summer heat, 120 townspeople nod "Yeses" and "Amens" from their beach chairs amid the peas and string beans at Hudak Farm in Swanton, Vt.

"The Raging Grannies," a troupe of older women wearing crocheted shawls, takes to the microphone to belt out anti-Wal-Mart ditties, one to the tune of "Clementine."

Found our Main Street,
Found our Main Street,
Boarded up and gone to hell,
All the townsfolk shop at Wal-Mart,
Now we've got no local stores.

Then Albert Norman, a 57-year-old visitor from Massachusetts, seizes the microphone and exhorts the attendees to either stop the megachain's plans to build a store of 147,500 square feet right next door in St. Albans Town, twice the retail space of its entire downtown, or get Wal-Mart to cut the building down to size. The new store would sit a half-mile from the farm, across the street from a rusty drive-in movie theater in a bucolic state where not even the capital city has a McDonald's or a Starbucks.

"Don't make St. Albans look like the New Jersey Turnpike," Norman rants as three red roosters stroll by. "Don't turn the Green Mountain State into the Black Asphalt State."

Giant Slayer

ALBERT NORMAN has made a minicareer out of blocking Wal-Mart. He has evidently had some success . By Elizabeth MacDonald

After noting that another Wal-Mart sits 20 miles away (it's actually 35 miles), Norman pressures the attendees to write letters to the editors of newspapers, start petitions and make appeals to their zoning board. "Wal-Mart is the end of competition in St. Albans. When you wind up with a Microsoft or Enron, you end up with no free market," he raves. "You have the power to cut Wal-Mart down to size."

This business of fighting businesses is more than a grassroots movement. For Norman, whose day job is running Mass Home Care, a nonprofit network in Burlington, Mass. that helps senior citizens remain in their homes, the anti-Wal-Mart crusade is a business. He gets up to $3,000 for his speeches, which he delivers 36 times a year, money paid by merchants, concerned townspeople and unions. He has plenty of allies, including the United Food & Commercial Workers union, frightened competitors from small retailers to big chains and environmental groups. Norman gets results. He says in the last decade he has helped towns from Charlevoix, Mich. to Hood River, Ore. to Eureka, Calif. beat back 180 Wal-Marts (and 70 other big-box stores).

Norman is spreading lies, says Wal-Mart spokesperson Mona Williams.

Now Norman is taking his consulting work abroad. He has so far confronted Wal-Mart in Ireland and Barbados.

In Swanton, the Bentonville, Ark. megachain has a serious battle on its hands. In an unusual move, the National Trust for Historic Preservation has included the entire state of Vermont on its 2004 annual list of America's most endangered historic places. Paul Bruhn, executive director of the Preservation Trust of Vermont, says while he supports smaller Wal-Mart stores, the four existing Wal-Marts in the state were enough to threaten Vermont's picturesque villages and bucolic way of life.

Wal-Mart, Norman says, encourages sprawl, drives neighborhood stores into bankruptcy and "blands down" America by morphing towns once known for their regional élan into miles of windowless, concrete walls and parking lots. He quails: "America has been invaded by Wal-Martians, they have successfully colonized the United States and planted their flag in ten other nations."

The bigger the target, the more the lawsuits. No surprise that Wal-Mart has 5,000 lawsuits of one sort or another pending against it, many of which are in-store accident claims. Another could be the largest class action in history, filed on behalf of six women workers, in a class that could grow to 1.6 million women employees. The suit charges the chain with sexual discrimination. Wal-Mart says the suit is without merit and that it does not represent the experience most women have when they work there.

But Norman is particularly irksome to Wal-Mart because he is taking direct aim at its growth engine, its ability to expand. Wal-Mart has 3,055 stores in the U.S. It's not done building. It's on target to have 300 new stores this year and expects that pace to continue.

Norman acquired his rabble-rousing skills in the 1970s, fighting with a large coalition (successfully) to stop two nuclear plants in Montague, Mass., four miles from his hometown. In 1993 he stopped Wal-Mart from building a 160,000-square-foot store in Greenfield, Mass. "I saw that for many people, their sense of community is no bigger than their shopping cart," he declares. When Norman started to appear on TV news programs criticizing Wal-Mart, phone calls started pouring in from people around the country, concerned about Wal-Mart's relentless march into their own towns.

Since then Norman has authored two anti-Wal-Mart advice books. He spends 35 hours a week running sprawl-busters.com, which offers a groaning steam table of anti-Wal-Mart strategies. He annually log 60,000 miles bombing around the country often in his silver Volvo station wagon embossed with a red and white bumpe sticker that reads: "I don't shop at Sprawl Marts." He keeps a blue pinstripe suit coa on the back of the passenger seat in case h has to meet town officials.

"I am not sprawl-busting for profit; am waging a hometown war on Wal-Mart," he says, noting that he gives a lo of speeches for free and runs up trave expenses. "I just go out and tell the truth in little town halls and Kiwanis clubs, and it drives them [Wal-Mart] crazy."

Truth? Yes, in a Michael Moore sort of fashion. In his zippy PowerPoint presentations, Norman quotes store founder Sam Walton boasting that eventually "we became our own competition," as well as Wal-Mart Chief Executive Lee Scott saying: "We've been willing to cannibalize our stores."

Norman then conjures up the image of a ruthless multinational that uses its economic muscle powered by Third World sweatshops to drive down prices and put small retailers out of business. He mocks Wal-Mart for paying its workers "everyday low wages," saying on average full-time Wal-Mart employees get paid less than $15,000 a year.

"Those are all lies," says Wal-Mart spokesperson Mona Williams. "The average annual wage is about $18,600, equal to what many union grocers pay and higher than at most other nonunion retailers." She says a third of the company's hires come from other grocers or places like McDonald's, in search of better wages and benefits. Williams also disputes Norman's claim that just four out of ten workers can afford its health insurance. She says more than 40% of the workers on Wal-Mart's plan had no coverage before joining and 90% have insurance through Wal-Mart or elsewhere. And though Norman likes to say that half of its workers quit every year, that's lower than the 65% national average for retail workers, according to the National Retail Federation.

Norman frequently cites a study by now-retired Iowa State University economist Kenneth Stone saying that Iowa towns within 20 miles of a new Wal-Mart

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suffered badly, with retail sales plummeting 25% after five years. Williams: "Just the opposite usually happens. Other businesses spring up and flourish around our new stores, businesses that offer something we do not, like restaurants or tuxedo shops." Indeed, even the mayor of Burlington, Vt., Peter Clavelle, says that while the Wal-Mart near Burlington drew retail business away from its downtown, the city compensated with new restaurants, cultural activities and boutiques. Employment in town is up since the store opened in January 1997.

Norman blames Wal-Mart for the fact that "from 1992 to 1997, we lost 9,600 grocery stores." But it's not just small grocers that have gotten in trouble. The sick list includes Grand Union, Pathmark and A&P. "People say Wal-Mart puts small businesses out of business. But it's both consumers and Wal-Mart that put inefficient businesses out of business, including very big chains like Winn-Dixie, Montgomery Ward, Caldors and Ames," says Roger Blackwell, an Ohio State University marketing professor.

As for Norman's sweatshops claim, Williams maintains that every week a group of 100 Wal-Mart employees conducts 300 inspections of overseas factories, which by contract must meet United Nations standards of safety and pay.

Norman also decries Wal-Mart's "boneyard," 371 empty hulks of former Wal-Mart stores. Williams says the number is 250 and that seven Wal-Mart real estate pros work to sell or lease these properties, to become schools, hospitals or call centers. Last year they unloaded the equivalent of 150 supercenters.

One of the accusations in a Norman book: "As Wal-Mart lowers the cost of a market basket of consumer goods, and thus the consumer price index, down with it comes the cost of living adjustment that lowers the annual Social Security check for 47 million elders and disabled Americans." Hey, why not blame Wal-Mart for El Niño?

Al Norman works up the crowd in Swanton, Vt.

At Hudak Farm some folks aren't convinced that they would be worse off with the big store. "A Wal-Mart here would dramatically boost the economy," says Larry E. Carlson, 64, a former Boise Cascade paper mill manager. David McWilliams, an AFL-CIO union official, says: "I'm for a Wal-Mart here." Robin Blouin, a native of the town, agrees: "I'm sick of these rich out-of-towners coming in to stop Wal-Mart, who don't care about poor people. We can't afford to buy a new pair of socks in the stores downtown." Still, Susan Knightes, 57, a resident of St. Albans City, says a new Wal-Mart "would devastate everything."

Norman is adamant that more area residents than not oppose the Wal-Mart. So why not take a show of hands at the meeting to see who would be for or against the store? He answers: "I don't want to put that in the face of people or make them feel harassed; they don't like to be asked."

The store's plans go before a development review board by mid-September. After that, there could be court appeals and further negotiation. For Wal-Mart, the average time between purchase of a parcel and ribbon-cutting is one and a half years. F

"I am not 'sprawl-busting' for profit. I am waging a hometown war on Wal-Mart," swears Norman.

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My way or the highway: UTI Chief Kimberly McWaters leveraged the car companies.

Bumper-to-Bumper Education

Once a sleepy technical school, Universal Technical Institute has figured out how to profit from the shortage of auto mechanics | BY JONATHAN FAHEY

WHEN IT COMES TO FIXING car engines, Kimberly McWaters doesn't know a wrench from a Wankel. But she knows how to steer a company that is deftly profiting from the country's dearth of good auto mechanics.

Universal Technical Institute has been around as a run-of-the-mill general vocational school since 1965. But McWaters, seeing the mechanic shortage worsening in the mid-1990s, lobbied to transform the company. Instead of thinking of students as its customers, McWaters wanted UTI to cater to its true end users: the automakers

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and dealers who hire UTI's graduates. Appointed president in 2000, she pushed the change through over the initial opposition of the company's chief executive and senior management. McWaters, who had started with UTI as a part-time receptionist in 1984, even threatened to step down if she wasn't allowed to change the company. "I had to make them understand that by knowing what our final customers needed we would be helping the students, too," she says.

She got her way, shedding UTI's programs in air-conditioning and computer-aided drafting. Now UTI offers undergraduate programs tailored to brands like Ford and Toyota, and it has signed on Audi, BMW, Jaguar, Mercedes-Benz and Porsche to develop—and pay for—postgraduate programs.

UTI went public in December largely to pay off debt from an ill-fated acquisition of a training company in 1998. Since then its shares have risen 22% to a recent $30. Over the three quarters ended June 30, UTI earned $22 million, up 46% from last year, on $186 million in sales, up 31%.

Penske Capital Partners, a fund set up by auto dealer magnate Roger Penske, backed the company when it was private and is still a large shareholder. "We knew about the shortage problems, so we figured we could be a part of the company that's solving them," says fund President James Hislop. "And the side benefit is that we'd be able to supply our dealers with good technicians."

Education stocks have been battered recently, after Corinthian Colleges in Santa Ana, Calif. missed earnings projections. Corinthian and others have also been fighting accusations that they tricked the Department of Education into granting excessive financial aid to students. UTI says it has escaped similar problems because its sales force is paid bonuses based on graduations, not on number of enrollments. That discourages shady recruiting tactics.

UTI is exploiting the nightmare every car owner has experienced: There aren't enough good mechanics, especially as vehicles grow more complicated and computerized. The Bureau of Labor Statistics estimates an annual shortage of 31,900 automotive service technicians and mechanics through 2012. UTI's 122 recruiters visit high schools and try to supplant the image of grease monkeys working in hot, filthy shops with visions of tech-savvy technicians recalibrating engines with a few keystrokes.

At its eight campuses around the country UTI will graduate 7,000 service techs this year in automotive, heavy truck, motorcycle and marine engine repair. It's not cheap. Students spend $23,000 for a 12-month program, though 80% of students in the undergraduate programs get federal student loans. But the company claims 90% of grads are snapped up by auto dealers or aftermarket outfits like Midas or Penske Truck Leasing. Recent graduates make $30,000 a year or so. Master technicians with several years' experience can make in the low six figures.

By The Numbers

Grease Monkeys

818,000 The number of auto service technicians and mechanics in the U.S.

919,000 The number of mechanic jobs projected by 2012.

16% The number of mechanics who are self-employed.

$32,830 Average annual income.

31,900 The number of annual job openings expected through 2012.

Source: Bureau of Labor Statistics

UTI meets with manufacturers and dealers at least twice a year to fine-tune classes and find out what new features are being included in new vehicles. Audi, for example, recently rolled out adaptive cruise control in its A8 sedan. It asked UTI to add a new lesson, and Audi upgraded wheel-alignment machines at three UTI campuses that can handle the new hardware—even before most dealers got the machines.

UTI is working to refine the process further by surveying manufacturers and dealers on how many technicians they will need, when and in what part of the country. UTI will then send its recruiters to high schools in those areas. "We want to have a just-in-time technician ordering system," McWaters says.

Ford and Toyota have helped UTI create brand-specific electives that students can pay to take during their undergraduate program. The best graduates (those who have at least a 3.3 GPA, perfect attendance and driving records and are drug free) can apply for postgraduate work at one of 22 satellite campuses to specialize in brands like Audi, BMW, Jaguar, Mercedes-Benz, Porsche, Volkswagen or Volvo. The automakers pay for this training. When one of their dealers hires a graduate, the dealer pays back the factory.

Gary Long, who staffs the service bays of the 34 dealerships owned by Leith, Inc. in Raleigh, N.C., calls up UTI's nearby campus when he needs help. Recently, UTI provided 42 students for interviews, and Long offered jobs to 6. He pays graduates of the regular program $29,000 and of the manufacturer-specific programs $36,000. "We have students that have been with us six or seven years making $70,000 to $80,000," he says.

The mechanic shortage has attracted competitors, of course. Manufacturers and dealer groups are recruiting airline technicians tired of the ups and downs of that turbulent industry, as well as former military technicians. Community colleges are UTI's biggest direct competition. Their automotive programs are much cheaper, but take at least two years to finish. A smattering of other technical schools, like Corinthian Colleges' Wyoming Tech, offer automotive programs.

McWaters, 40, plans to expand the company at a measured pace. In the last three months UTI opened a training program in Orlando and its first campus in the Northeast, near Philadelphia. She says she wants to add at least one big campus a year for the next three to five years and expand programs beyond technicians to help dealerships fill other jobs, like car salesmen. It sounds too good to be true: a mechanic *and* a car salesman you can trust? F

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IPO alternatives: Jefferies Chief Richard Handler.

Trading Up

Jefferies aims to become a big investment bank by catering to small customers | BY DEBORAH ORR

THE FASTEST-RISING INVESTMENT bank on Wall Street has a word of advice for any small company contemplating a listing: Don't do it.

Strange advice from a firm that wants to be, in the words of Chief Executive Richard Handler, the investment "bank of choice" for small and middling companies. But Jefferies Group isn't banking on the return of the new-issues market to gain its place on Wall Street. Handler, who cut his teeth selling junk bonds at Drexel Burnham Lambert, is building a business around finding other ways for companies to raise money and by catering to smaller institutions—like hedge funds—as sources of capital. Since he gained the top spot after a boardroom coup five years ago, the firm has expanded its investment banking revenues from $82 million to $230 million last year even though it has underwritten only ten new stock issues since the start of 2003.

While the rest of The Street shrank, Jefferies' revenues have doubled over the last five years and should top $1 billion this year. Known more for its scrappy traders than its dealmakers, Jefferies executes 11% of the trades on the NYSE and a third of those on the Nasdaq and Bulletin Board system.

There are signs of life in the new issues market: 162 companies are regis tered and waiting to go public, against 2 a year ago. But many of them will neve make it. Since the beginning of July a least 23 companies have canceled or post poned their initial offerings after month of preparation and expensive road shows "I think this represents a fundamenta shift in the market," says Paul Deninge vice chairman of Jefferies. "Technology i a $2 trillion industry in the U.S. now Investors can no longer be sure they ar getting a significant industry player i they buy, say, a $25 million company." H says half the companies on Nasda should not even be public.

Many of the firms that have made i to market this year, whether at the high o low end of technology, have had to slas their prices before listing—or risk havin the market do it for them. Roughly half o the new issues of 2003 and 2004 are trad ing below their listing prices.

And that may be only the beginnin of their troubles.

"To be a small or midsize compan and publicly listed is truly thankless," say Robert Lessin, the former head of invest ment banking at Salomon Smith Barne now cohead of investment banking at Jef feries. "Your shares aren't traded much the cost of complying with Sarbanes Oxley is crippling, and your board meet ings are run by lawyers. We don't tal about IPOs with most of our clients."

Even for those companies alread "going through the mental anguish o being public," says Lessin, there are othe ways to grow: through a merger, by bor rowing money or by securitizing asset like receivables. Many smaller listed com panies, though, now raise money fron private equity or hedge funds—just th kind of investor Jefferies caters to.

Nine of 28 equity deals underwritte by Jefferies in the first half of 2004 hav been quick-and-dirty private placement of stock, convertible debt or privat investment in public equities—all o which go in and out of favor with th $800 billion hedge fund industry. As lon as stock is sold only to institutiona investors there are no Securities & Exchange Commission hurdles. Hedg

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funds will buy stock or converts—at a discount. Then they short the existing shares to turn a quick profit.

Here is where catering to hedge fund clients has paid off well for Jefferies—and may get the firm in trouble in the future. Jefferies avoided the investment banking and mutual fund scandals that have tied its rivals in knots, but word leaked in July that the SEC is investigating the timing of trades in public companies raising money privately. Jefferies says it doesn't comment on SEC inquiries.

Even if the SEC shuts down these private deals, Jefferies has other ways to match companies and potential investors. For some, taking on debt makes more sense than taking on public shareholders, even if a poor credit rating means a stiff coupon. Jefferies underwrites more high-yield debt for small companies than any of its rivals. A third of its investment banking revenue comes from debt issues.

The acquisition last December of Broadview, an M&A boutique specializing in technology, gave Jefferies another alternative to the new-issues market—and access to then Broadview chief Paul Deninger's client list. If the public markets don't want your shares, a merger may be the best option. Among venture-capital-backed companies, 176 worth a total of $11.3 billion were sold, but only 34 went public in the first half of this year. And more listed companies are pairing up with bigger rivals. Marimba, one of Broadview's clients, was worth more as an acquisition than it was to the public markets. The software company's shares languished at a fraction of their listing price for four years but fetched a 69% premium when BMC Software bought Marimba in July. Broadview bankers have closed 28 other deals—more than half of all the firm's M&A business this year.

Jefferies is earning fat fees in another area: advising bankrupt companies.

Being new to investment banking has some advantages. The federal bankruptcy code says restructuring work is closed to any bank that has underwritten any debt or equity for that company in the past three years. Even though bankruptcies are down, Jefferies is still winning lucrative restructuring business that is off-limits to many competitors. In the last year Jefferies has been hired to help sort out Parmalat and parts of MCI and Adelphia. Once these companies are fixed, Jefferies puts its analysts and brokers to work selling their debt and equity.

Five years ago Jefferies itself was in need of restructuring. As a small institutional broker and trader in Los Angeles, the firm was shrinking along with its trading commissions. Jefferies was losing 19% of its employees every year as traders left to join the Internet gold rush. In 1999 Handler, only 38 at the time, and John Shaw, a veteran Jefferies equity trader, took a new plan to the board: end the firm's dependence on trading revenues by pushing into investment banking and asset management. They also wanted to stem the turnover by putting more shares in the hands of employees. The board agreed and named Handler chief executive and Shaw chief operating officer.

They moved headquarters to Manhattan and started hiring whole teams that were being downsized by big firms and refugees from the small boutiques that big banks bought up in the late 1990s. Jefferies avoided a common Wall Street trap: the guaranteed bonus. "We never got caught up in the three-by-four contract," says Shaw, referring to guaranteed pay of $3 million a year for four years that some Wall Street investment bankers expect. When prospective employees start asking for guarantees, Shaw asks them, "'Why are you limiting yourself? Don't you think you can make more than that?'" Some on his trading floor do.

Employees take home 55% of the firm's revenues—on the high side for Wall Street—and they own 52% of the company. "Even the mailroom clerk owns at least 1,000 shares," says Shaw. Handler's 7% holding is worth $118 million.

At its core, Jefferies is still a trading firm. It has a small retail business; it doesn't use leverage and holds hardly anything overnight "no matter how great we think it is," says Shaw. Investment banking and asset management are fueling profits, which grew 34% last year and nearly doubled to $63.7 million for the first six months of this year. But trading is still where Jefferies earns 55% of revenues. And it defines Jefferies' approach to everything from management to new businesses.

Handler's Manhattan office is a 12-by-15-foot fishbowl on the edge of the trading floor that he shares with Shaw and Chief Financial Officer Joseph Schenk. It's clear from the tidiness of their desks that none of them spends much time in there. "It helps having everyone in the trenches," says Handler. "We can get our information unfiltered."

What about the competition? Robertson Stephens, Alex. Brown, Montgomery Securities and Hambrecht & Quist, once known as the four horsemen of Silicon Valley, were all sold to big banks in their prime, then were slowly dismembered when the market turned against tech. Piper Jaffray and Keefe, Bruyette & Woods also do research and underwriting for smaller companies. But few have attempted to remake themselves on the scale of Jefferies, and most that have were sorry they tried. Charles Schwab & Co. bought Soundview Technology Group, a boutique investment bank that pioneered Internet listings, a year ago; it has already put the business up for sale.

The giant firms compete on Jefferies' turf but have much of their attention focused on giant customers like General Electric. Marimba went public with the help of Morgan Stanley in 1999 but hired the Broadview bankers at Jefferies to advise on its merger. Frontline Shipping chose Jefferies to underwrite a $580 million bond, relegating its regular banker, Citigroup, to comanager last year.

Just because Handler wants to finance small companies doesn't mean he wants to work for one. "Lehman Brothers, Bear Stearns and DLJ were no bigger ten years ago than we are now," says Handler. F

"To be a small or midsize company and publicly listed is truly thankless."

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EVERY YEAR 3 MILLION CHILDREN die from vaccine-preventable diseases. The problem is one of delivery: getting the vaccines out into the countryside in poor nations.

Blaise Judja-Sato, 39, saw this in a life-changing, firsthand way in March 2000. At that time Judja-Sato, a native of Cameroon, was head of business development for Africa at Teledesic, the Seattle satellite communications firm founded by Craig McCaw and Bill Gates. Responding to a call from Graça Machel, a Mozambican married to South Africa's Nelson Mandela, Judja-Sato took vacation time to go to Mozambique to help with disaster relief following horrific floods there.

At one field hospital, someone pulled Judja-Sato into a tent. An emaciated newborn lay with her mother on a cloth on the ground. "The mother looked so sick and tired, and the baby was so skinny," he recalls. "I went back to my hotel that night and cried. I felt so powerless."

Donors were giving, but the medicines, food, water and other supplies weren't getting delivered to rural areas. Poor transportation, communication and energy supply were "killing this country, killing this region," he remembers thinking.

When Judja-Sato returned to Seattl three weeks later, he told McCaw that h wanted to leave Teledesic and his $150,00 salary to help Mozambique. This is a coun try where 70% of the 19 million citizen live below the poverty line, where one i four children die before the age of 5 Malaria, diarrhea and measles are amon the biggest causes of death. There are 40 doctors in the whole nation. Per capit health expenditure is $7.50 a year.

McCaw let Judja-Sato use Teledesic of fice space for 18 months while he forme a nonprofit called VillageReach to attac the problem of delivering vaccines. Vac

He $150,000 salary, but Judja-Sato is saving lives.

The Last Mile

Blaise Judja-Sato had a nice job selling telecom services—until he saw what the lack of vaccines was doing to the poor in Mozambique | BY KERRY A. DOLAN

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Reaching out: Health workers set up shop in rural outposts for families far from clinics.

Now that vaccines are available, "a lot more mothers are bringing their children for vaccination."

cines need to be kept cool—between 36 and 46 degrees Fahrenheit—to prevent spoiling. Most rural health clinics in the country lack electricity, and many rely on poorly working kerosene-powered refrigerators to chill the vaccines.

In 2002 Judja-Sato signed a deal with the Ministry of Health to start a pilot project delivering pediatric vaccines—and facilities to keep them cool—to 42 clinics serving 900,000 people in Cabo Delgado, a rural northeastern province. The government covers about 30% of the $5,500 monthly operating costs; VillageReach handles the rest. Machel's Foundation for Community Development donates office space and legal services and provided crucial funding for a feasibility study.

Now, once a quarter, the health ministry flies the vaccines—for tuberculosis, measles, diphtheria and other diseases—to Cabo Delgado's capital, Pemba, where they're stored at the proper temperature in a warehouse. The vaccines are picked up each month by the ten-member Pemba staff of VillageReach, who, in four Toyota Land Cruiser trucks, distribute them in temperature-controlled containers to rural clinics around the province.

At the clinics, VillageReach installed refrigerators to prevent spoilage and lights powered by propane (all supplied by VillageReach). As a result, "A lot more mothers are bringing their children for vaccination these days," says Francisco Paolo, who oversees vaccinations for the Montepuez district of Cabo Delgado. As word spread that vaccine supplies were more reliable, voluntary immunization rates at some clinics have surged 40% since distribution was taken over in July 2002, according to VillageReach. In the past, mothers would sometimes walk two hours to the clinic only to find vaccines out of stock or spoiled.

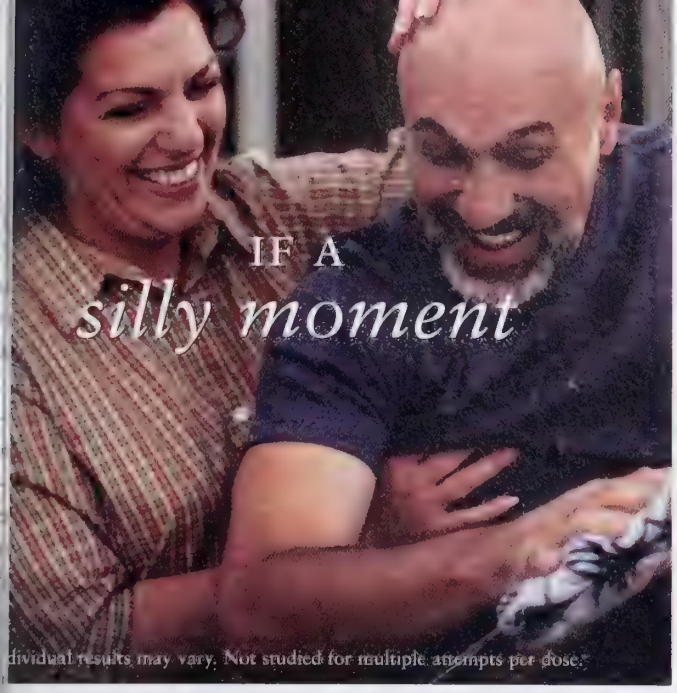
"We think that maybe we can expand this to other provinces. It's really getting good results," says Dr. Manuel Novela, national manager of the program for immunizations at the Ministry of Health.

Judja-Sato has encountered plenty of obstacles to get this far. First was persuading the Mozambique government to take him seriously, given his lack of public health experience. Machel's foundation cosigned the agreement with the government, lending him credibility. It was difficult to raise funds as well. "Donors don't find this sexy," he says. He has raised $5 million so far, including $3.3 million from the Bill and Melinda Gates Foundation and $250,000 from the World Bank, that will enable VillageReach to more than double the number of clinics it serves to 90, reaching 1.5 million people.

Public health is a long way from telecom for Judja-Sato. He'd earned an M.B.A. at Wharton and worked for a combined six years at Andersen Consulting and AT&T International before joining Teledesic in 1996. "What's keeping me sane is to approach this as if it were a business," he says.

To that end, Judja-Sato set up a for-profit business, VidaGas, that distributes propane gas to the Ministry of Health as well as to residential and commercial customers. He wants to create jobs and generate income to help sustain VillageReach. VidaGas isn't profitable yet, but Judja-Sato hopes that in three years it will fund 25% of the costs of VillageReach in the country.

Looking to expand the program to other countries, Judja-Sato says, "We know we can't do this everywhere, but if we can find a strong local partner, we'll work with them." In the meantime he's drawing a $70,000 salary and dipping into savings. F



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Cialis is not for everyone. If you take nitrates, often used for chest pain (also known as angina), or alpha-blockers (other than Flomax 0.4 mg once daily), prescribed for prostate problems or high blood pressure, do not take Cialis. Such combinations could cause a sudden, unsafe drop in blood pressure. Don't drink alcohol in excess (to a level of intoxication) with Cialis. This combination may increase your chances of getting dizzy or lowering your blood pressure. Cialis does not protect a man or his partner from sexually transmitted diseases, including HIV.

The most common side effects with Cialis were headache and upset stomach. Backache and muscle ache were also reported, sometimes with delayed onset. Most men weren't bothered by the side effects enough to stop taking Cialis. Although a rare occurrence, men who experience an erection for more than 4 hours (priapism) should seek immediate medical attention. Discuss your medical conditions and medications with your doctor to ensure Cialis is right for you and that you are healthy enough for sexual activity.

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Cialis®
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Read the Patient Information about CIALIS before you start taking it and again each time you get a refill. There may be new information. You may also find it helpful to share this information with your partner. This leaflet does not take the place of talking with your doctor. You and your doctor should talk about CIALIS when you start taking it and at regular checkups. If you do not understand the information, or have questions, talk with your doctor or pharmacist.

What important information should you know about CIALIS?

CIALIS can cause your blood pressure to drop suddenly to an unsafe level if it is taken with certain other medicines. You could get dizzy, faint, or have a heart attack or stroke.

Do not take CIALIS if you:

- **take any medicines called "nitrates."**
- **use recreational drugs called "poppers" like amyl nitrate and butyl nitrate.**
- **take medicines called alpha blockers, other than Flomax® (tamsulosin HCl) 0.4 mg daily.**

(See "Who should not take CIALIS?")

Tell all your healthcare providers that you take CIALIS. If you need emergency medical care for a heart problem, it will be important for your healthcare provider to know when you last took CIALIS.

After taking a single tablet, some of the active ingredient of CIALIS remains in your body for more than 2 days. The active ingredient can remain longer if you have problems with your kidneys or liver, or you are taking certain other medications (see "Can other medications affect CIALIS?").

What is CIALIS?

CIALIS is a prescription medicine taken by mouth for the treatment of erectile dysfunction (ED) in men.

ED is a condition where the penis does not harden and expand when a man is sexually excited, or when he cannot keep an erection. A man who has trouble getting or keeping an erection should see his doctor for help if the condition bothers him. CIALIS may help a man with ED get and keep an erection when he is sexually excited.

CIALIS does not:

- cure ED
- increase a man's sexual desire
- protect a man or his partner from sexually transmitted diseases, including HIV. Speak to your doctor about ways to guard against sexually transmitted diseases.
- serve as a male form of birth control

CIALIS is only for men with ED. CIALIS is not for women or children. CIALIS must be used only under a doctor's care.

How does CIALIS work?

When a man is sexually stimulated, his body's normal physical response is to increase blood flow to his penis. This results in an erection. CIALIS helps increase blood flow to the penis and may help men with ED get and keep an erection satisfactory for sexual activity. Once a man has completed sexual activity, blood flow to his penis decreases, and his erection goes away.

Who can take CIALIS?

Talk to your doctor to decide if CIALIS is right for you.

CIALIS has been shown to be effective in men over the age of 18 years who have erectile dysfunction, including men with diabetes or who have undergone prostatectomy.

Who should not take CIALIS?

Do **not** take CIALIS if you:

- **take any medicines called "nitrates"** (See "What important information should you know about CIALIS?"). Nitrates are commonly used to treat angina. Angina is a symptom of heart disease and can cause pain in your chest, jaw, or down your arm.

  Medicines called nitrates include nitroglycerin that is found in tablets, sprays, ointments, pastes, or patches. Nitrates can also be found in other medicines such as isosorbide dinitrate or isosorbide mononitrate. Some recreational drugs called "poppers" also contain nitrates, such as amyl nitrate and butyl nitrate. Do not use CIALIS if you are using these drugs. Ask your doctor or pharmacist if you are not sure if any of your medicines are nitrates.
- **take medicines called "alpha blockers", other than Flomax® 0.4 mg daily.** Alpha blockers are sometimes prescribed for prostate problems or high blood pressure. If CIALIS is taken with alpha blockers other than Flomax® 0.4 mg daily, your blood pressure could suddenly drop to an unsafe level. You could get dizzy and faint.
- **you have been told by your healthcare provider to not have sexual activity because of health problems.** Sexual activity can put an extra strain on your heart, especially if your heart is already weak from a heart attack or heart disease.
- **are allergic to CIALIS or any of its ingredients.** The active ingredient in CIALIS is called tadalafil. See the end of this leaflet for a complete list of ingredients.

What should you discuss with your doctor before taking CIALIS?

Before taking CIALIS, tell your doctor about all your medical problems, including if you:

- **have heart problems** such as angina, heart failure, irregular heartbeats, or have had a heart attack. Ask your doctor if it is safe for you to have sexual activity.
- **have low blood pressure or** have high blood pressure that is not controlled
- **have had a stroke**
- **have liver problems**
- **have kidney problems or require dialysis**
- **have retinitis pigmentosa,** a rare genetic (runs in families) eye disease
- **have stomach ulcers**
- **have a bleeding problem**
- **have a deformed penis shape** or Peyronie's disease
- **have had an erection that lasted more than 4 hours**
- **have blood cell problems** such as sickle cell anemia, multiple myeloma, or leukemia

prescription medicines, vitamins, and herbal supplements. CIALIS and other medicines affect each other. Always check with your doctor before starting or stopping any medici Especially tell your doctor if you take any of the following:

- medicines called nitrates (See "What important information should you know al CIALIS?")
- medicines called alpha blockers. These include Hytrin® (terazosin HCl), Flom (tamsulosin HCl), Cardura® (doxazosin mesylate), Minipress® (prazosin HCl) or Uroxat (alfuzosin HCl).
- ritonavir (Norvir®) or indinavir (Crixivan®)
- ketoconazole or itraconazole (such as Nizoral® or Sporanox®)
- erythromycin
- other medicines or treatments for ED

How should you take CIALIS?

Take CIALIS exactly as your doctor prescribes. CIALIS comes in different doses (5 10 mg, and 20 mg). For most men, the recommended starting dose is 10 mg. **CIALIS sho be taken no more than once a day.** Some men can only take a low dose of CIALIS beca of medical conditions or medicines they take. Your doctor will prescribe the dose that is r for you.

- If you have kidney problems, your doctor may start you on a lower dose of CIALIS
- If you have kidney or liver problems or you are taking certain medications, your do may limit your highest dose of CIALIS to 10 mg and may also limit you to one table 48 hours (2 days) or one tablet in 72 hours (3 days).

Take one CIALIS tablet before sexual activity. In some patients, the ability to have se activity was improved at 30 minutes after taking CIALIS when compared to a sugar The ability to have sexual activity was improved up to 36 hours after taking CIALIS w compared to a sugar pill. You and your doctor should consider this in deciding when should take CIALIS prior to sexual activity. Some form of sexual stimulation is needed fo erection to happen with CIALIS. CIALIS may be taken with or without meals.

Do not change your dose of CIALIS without talking to your doctor. Your doctor may lo your dose or raise your dose, depending on how your body reacts to CIALIS.

Do not drink alcohol to excess when taking CIALIS (for example, 5 glasses of wine 5 shots of whiskey). When taken in excess, alcohol can increase your chances of gett a headache or getting dizzy, increasing your heart rate, or lowering your blood pressure

If you take too much CIALIS, call your doctor or emergency room right away.

What are the possible side effects of CIALIS?

The most common side effects with CIALIS are headache, indigestion, back pain, mus aches, flushing, and stuffy or runny nose. These side effects usually go away after a f hours. Patients who get back pain and muscle aches usually get it 12 to 24 hours a taking CIALIS. Back pain and muscle aches usually go away by themselves within 48 hou Call your doctor if you get a side effect that bothers you or one that will not go away.

CIALIS may uncommonly cause:

- **an erection that won't go away (priapism).** If you get an erection that lasts more th 4 hours, get medical help right away. Priapism must be treated as soon as possi or lasting damage can happen to your penis including the inability to have erections.
- vision changes, such as seeing a blue tinge to objects or having difficulty telling difference between the colors blue and green.

These are not all the side effects of CIALIS. For more information, ask your doc or pharmacist.

How should CIALIS be stored?

- Store CIALIS at room temperature between 59° and 86°F (15° and 30°C).
- **Keep CIALIS and all medicines out of the reach of children.**

General Information about CIALIS:

Medicines are sometimes prescribed for conditions other than those described in pati information leaflets. Do not use CIALIS for a condition for which it was not prescribed. not give CIALIS to other people, even if they have the same symptoms that you have. It m harm them.

This leaflet summarizes the most important information about CIALIS. If you wo like more information, talk with your healthcare provider. You can ask your doctor pharmacist for information about CIALIS that is written for health professionals.

For more information you can also visit www.cialis.com, or call 1-877-242-5471.

What are the ingredients of CIALIS?

Active Ingredient: tadalafil

Inactive Ingredients: croscarmellose sodium, hydroxypropyl cellulose, hypromello iron oxide, lactose monohydrate, magnesium stearate, microcrystalline cellulose, sodi lauryl sulfate, talc, titanium dioxide, and triacetin.

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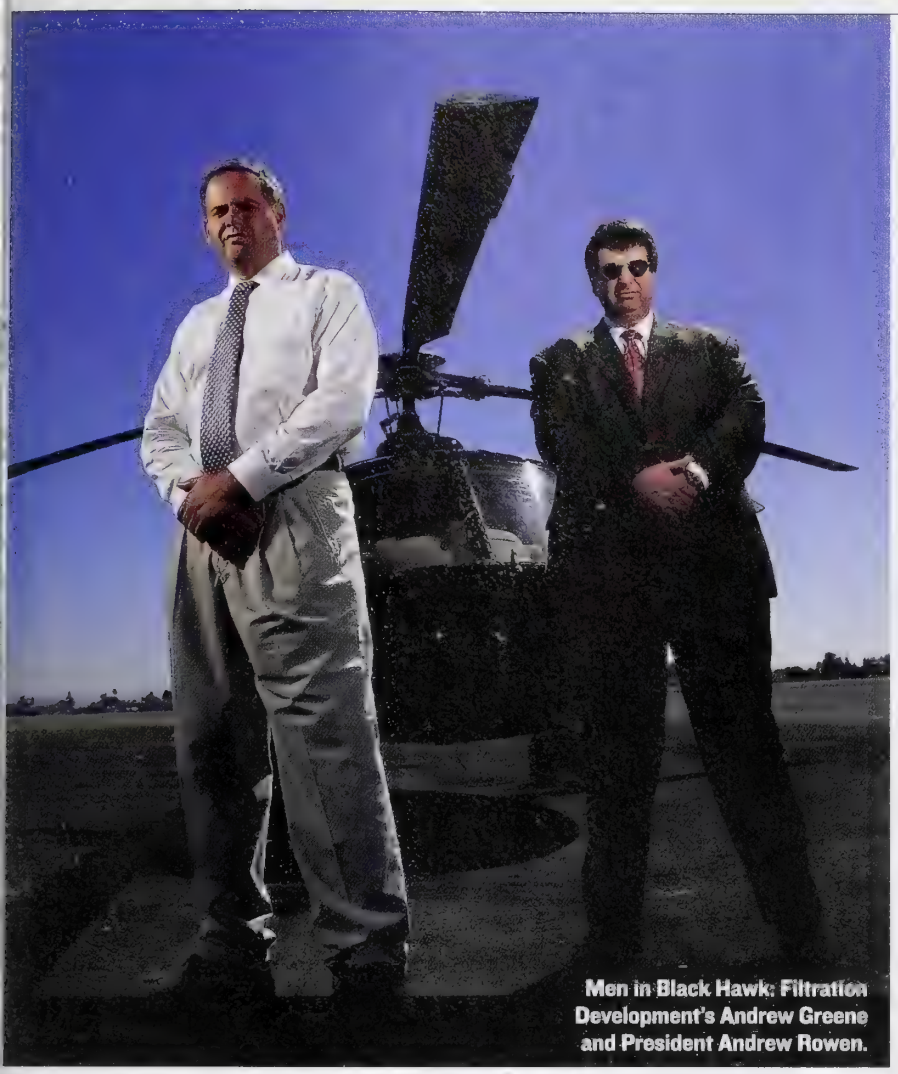


Men in Black Hawk: Filtration Development's Andrew Greene and President Andrew Rowen.

Desert Storm

All is fair in war and Defense Department contracting.

BY MATTHEW SWIBEL

SAND IS A MENACE TO HELICOPTER engines. A Marine Super Stallion crashed outside Kabul in January 2002 after sand damaged a compressor. The first fatalities of the Iraq war—four American and eight British marines killed in March 2003 in the crash of a Sea Knight in a sandstorm in northern Kuwait—may have been caused by engine damage by sand. In the Mideast engines can need a complete overhaul in just 50 hours. The Army has racked up $300 million in sand damage repair bills on 400 UH-60 Sikorsky Black Hawk helicopters used in Afghanistan and Iraq.

It's a serious problem, but there is a solution: air filters, offered by several companies. The California Highway Patrol installed them in 2002 and found some helicopter engines ran for 2,000 hours, up from 800, before needing an overhaul.

Engineers at the U.S. Army's Aviation & Missile Command started planning in 1998 for a major purchase of filters. But very little happened. In mid-2003 the Army halted a study of filters on the market. Then last November it suddenly authorized a sole source contract for 240 filter kits for Black Hawks used in Iraq to a Sikorsky subcontractor, the Aerospace Filtration Systems unit of Westar Aerospace & Defense Group of St. Louis.

One problem with the Army's quick fix: Federal regulations prohibit Westar from supplying major components for helicopter engines. That's because $80 million (2003 sales) Westar advises the Army on engineering and technology services for helicopter engines. (You don't want a doctor prescribing pills if he owns the drug company.)

Not surprisingly, in December 2003 a rival filter company, Filtration Development Corp. of Novato, Calif., sued the Army in the U.S. Court of Federal Claims. In April Judge Bohdan A. Futey ruled Westar was improperly "in a position to make decisions favoring its own products or capabilities."

The Army first argued that such "military matters" were outside the court's jurisdiction. Then it asserted that the "compelling urgency" of ensuring readiness for Mideast operations meant it could ignore conflicts of interest and acquire engine filters without full and open competition. Acknowledging that urgency, Futey said the Army could buy 183 filters—57 fewer than it originally sought. But before it can buy any more, Futey ruled, the head of Missile Command or the Secretary of the Army must sign a waiver approving the purchase despite Westar's conflict of interest.

Westar President Robert Topping shrugs off the ruling. The government "didn't have the right guy sign the right papers," he sniffs. After delaying a response to the court decision, the Army now tells FORBES it will abide by the court's ruling. Meanwhile, it is pressing ahead with a $1.6 billion program to repair aircraft. Included in the budget: filters from Westar for more Black Hawk, Kiowa Warrior and Apache helicopters.

Andrew Greene, vice president of tiny Filtration Development (2003 sales of $3.5 million), sees big profits, as well as principle, at stake here. He figures his company's Black Hawk filter kits, even priced at $170,000 apiece (a third less than the competition), would yield a 50% gross margin. Having spent a half-million on legal fees, Filtration Development is asking Congress, so far without result, to force the Army to open competition. F

Quota? What's That?

Public-sector personnel directors have a near-impossible task: satisfying the diversity police and a public that demands "excellence"

BY DAN SELIGMAN

IF YOU'RE IN THE PEOPLE-SELECTION BUSINESS—IN, SAY, A PERsonnel or college admissions department—your job assignment can trigger a certain amount of cognitive dissonance, that being the mental disarray that comes from simultaneously holding two contradictory positions. You are expected to select on merit but also to produce some neat racial balance in the hiring (or admission) pool. Your employer, that is, wants to have it both ways. How do you cope?

A coping mechanism that looked, until recently, like a winner was the famous 10% law in Texas. Passed by the legislature in 1997, with the enthusiastic support of Governor George W. Bush, the law provides that all Texas students graduating in the top 10% of their high school classes automatically qualify to enter the University of Texas (or any other state college). Until recently the law was rated a huge success for diversity. Since every high school, no matter how low its standards, has a top decile, the law gave UT a lot of poor and minority kids who never would have made it on the basis of academic ability. This all seemed fine for a while, but now many Texans, and even the editors of the *New York Times*—who put the news on page one on June 13—are astonishedly discovering that educational resources are finite, and the boost for weak students is sending numerous first-rate students to colleges out of the state.

As elaborated by UC, Berkeley regent John Moores in an essay in FORBES *(Mar. 29)*, diversity can be attained—and less-qualified students admitted—by introducing "fuzzy factors" into the admission equation. At Berkeley it's done via "comprehensive reviews" that look at the applicant's whole life experience instead of mere grades and test scores. An alternative fuzzy factor is random selection. The city of Chicago is today selecting firefighters randomly from a huge (around 18,000) list of applicants who had passed a test—a test that 77% of test-takers passed.

Random selection will look unfair to many citizens. A subtler approach is to attain diversity via "banding," a system that is now widely used in public-sector hiring. We all know that, given a valid and reliable job test, the high scorers will—on average—do better at the job. But we also know tha sometimes the guy who scores 85 o the test will be a better worker tha the guy who scores 90. This fact of lif is used to justify banding, a system i which the test scores are segmente into a few bands, and you are then en titled to treat everyone within a par ticular band as essentially equal—an to hire randomly within the band. The system is guaranteed t produce a less-qualified work force than simply picking the high est scorers, but it was used for years in the New York Police De partment, until the Giuliani administration abolished it in the mid 1990s. Banding is used today in the San Francisco Polic Department and in many civil service jobs in Alabama, Kentucky and other states.

Perhaps the boldest attack on meri standards is the contention that it's dis criminatory to test for more than min imal competence. In the last few year the Third Circuit Court of Appeal (which covers Pennsylvania, New Jersey and Delaware) has strenuously promoted this approach. Passing score on hiring tests should measure only "the minimum qualifications necessary for successful performance of the job."

An astute comment on the Third Circuit standard was supplied recently by James Sharf, an industrial psychologist who has served at the federal Office of Personnel Management and recently worked for the Transportation Security Agency designing a test battery used to hire airport security screeners. Sharf's lament: "Am I really supposed to tell TSA, not to mention the flying public, that in those three states the cutoff scores must be set at levels ensuring only minimal competence?"

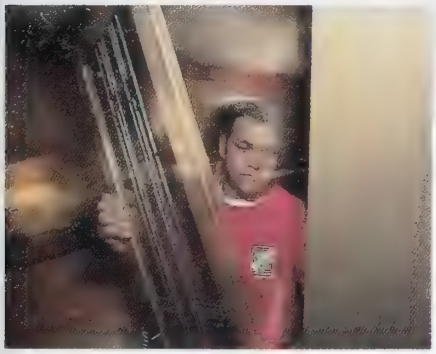
Dutifully deferring to Third Circuit rulings, a federal district court held in March that the Delaware State Police had imposed too high a standard on its job applicants. The 75% passing score on a literacy test was too high, and "minimum qualifications" required only passing scores in the 66%-to-70% range. Judge Kent Jordan agreed that it was important for police officers to write literate reports but went on to argue that this is, after all, "a single dimension in a multidimensional job." Then he let fly with this wobbly analogy: "There is no logical justification for assuming that a baseball player with superior fielding skills is necessarily a better overall player than one with weaker fielding skills."

Huh? It's logical to ignore fielding skills? It seems that colleges and employers in the Third Circuit are in for more than their share of cognitive dissonance. F

House Call

Not content to sell you the garage door, water heater and carpet, Home Depot figures it can install them for you better than the average contractor.

BY CHANA R. SCHOENBERGER



LANCE CULBERTSON HAS SPENT $45,000 over the past three years at the Home Depot in Fresno, Calif. But he isn't going back. The $1,600 sliding patio door he ordered arrived in the wrong size last October. The 39-year-old biotechnician says the store measured it wrong and refused to order a replacement, refund his money or patch the unfinished demolition around the doorway. An installation manager yelled at him. "They're not going to take care of it even if they're the ones who made the mistake," says Culbertson, who has since had Home Depot's archrival, Lowe's, install $16,000 in kitchen cabinets and appliances. (Home Depot refunded Culbertson's $800 installation fee, but says he mismeasured.)

It says something when the world's largest home-improvement retailer, with $65 billion in sales, is willing to risk its reputation on an $800 fee. Home Depot customers do 25 million transactions each week, and most are happy enough to come back. But the relationship has always ended at the store's threshold. It left to plumbers, electricians and handymen the mud tracks in the living room, the punctured pipes in the basement and the inevitable budget overruns.

But Home Depot Chief Executive Robert Nardelli is getting serious about the installation business. Reasons why: It makes a customer more likely to buy a big-ticket item; it builds repeat business; and it endears Depot to contractors, who account for 30% of store sales. And, with Home Depot's brand familiarity and heft, it has a distinct advantage over "the guy in the truck with the multiple body piercings," in the words of Depot Executive Vice President Francis Blake. The retailer can charge more than Ted's Contracting by fielding installers who are cleaner-cut, fully screened and less slapdash.

That's the theory, but Home Depot's foray into installation services has been tough sledding. At first store managers were reluctant to put much effort into promoting services. The software to handle cus-

By The Numbers

Home Free

Home Depot is betting installations will help it be more profitable than just hammers and nails.

$263 billion The U.S. home improvement product market in 2004.

$200 billion The U.S. home improvement services market in 2004.

$4,900 Amount people spend improving their home in first year of ownership.

52% of homeowners do a home project in their first year of ownership.

tomer jobs fluidly has been slow in coming and still won't be ready for a year or so. Web gripe sites are filled with stories like Culbertson's.

But Home Depot isn't about to give up. Installation is its fastest-growing unit, expanding 40% per year. "It's an enormous growth opportunity," says Blake. In 2003 the division took in $2.8 billion, encompassing 23 national programs to install decks, windows, roofing and virtually everything else the stores sell. Depot, which requires customers to call in and rate their installation job before the contractor can get paid, says that nine out of ten callers score their job an eight or higher out of ten.

Depot stores have been offering installation here and there for ten years, but only under Nardelli, who joined in 2000, did services become a priority. Blake, who came to the company in 2002, and Nardelli worked together running General Electric's Power Systems unit, which makes turbines and jet engines. When that business tapered off, they began selling long-term maintenance, inspection and monitoring contracts, as well as labor, environmental and power-transmission consulting services. Under Nardelli, GE Power grew from $6.5 billion in 1995 to $15 billion in 2000.

When Nardelli arrived at Home Depot's suburban Atlanta headquarters, the company had a hodgepodge of installation programs. If you wanted shutters installed and didn't live in the Southeast or the West Coast, Home Depot couldn't help you. Stores, that is, weren't doing much with the prospects standing right in front of their cash registers. The new chief promoted Joseph Izganics, a 15-year veteran, to make the installation business happen.

Izganics had started as an assistant store manager and moved his family cross-country six times, so he knew dozens of managers who would heed his call to get involved. He put the toll-free installation number on store signs and in all ads, built a bright-orange service desk at the front of each store and let customers sign up for home consultations on the Depot Web site. Izganics staged "road shows" across the country to teach staffers about installed products. He also changed how stores get compensated for installations. They used to base their manager and employee bonuses on retail sales alone. Now the bonus hangs as well on how many customers order installations, including those who call toll-free from within the store's zip code.

Izganics has 6,000 contractors on tap for installations. Some stock popular products like carpeting in their own warehouses. Depot is buying specialities for each part of the house. Last year it spent $248 million to buy several companies, including Installed Products USA, which puts in roofing and fences, and RMA Home Services, which hangs siding and windows.

Contractors, in exchange for a steady flow of orders, have to go through a screening process that can take weeks. They submit to license and insurance scrutiny as well as to a criminal and immigration background check for every employee, each of whom must dress neatly and wear a Home Depot-issued ID card when he shows up at a home.

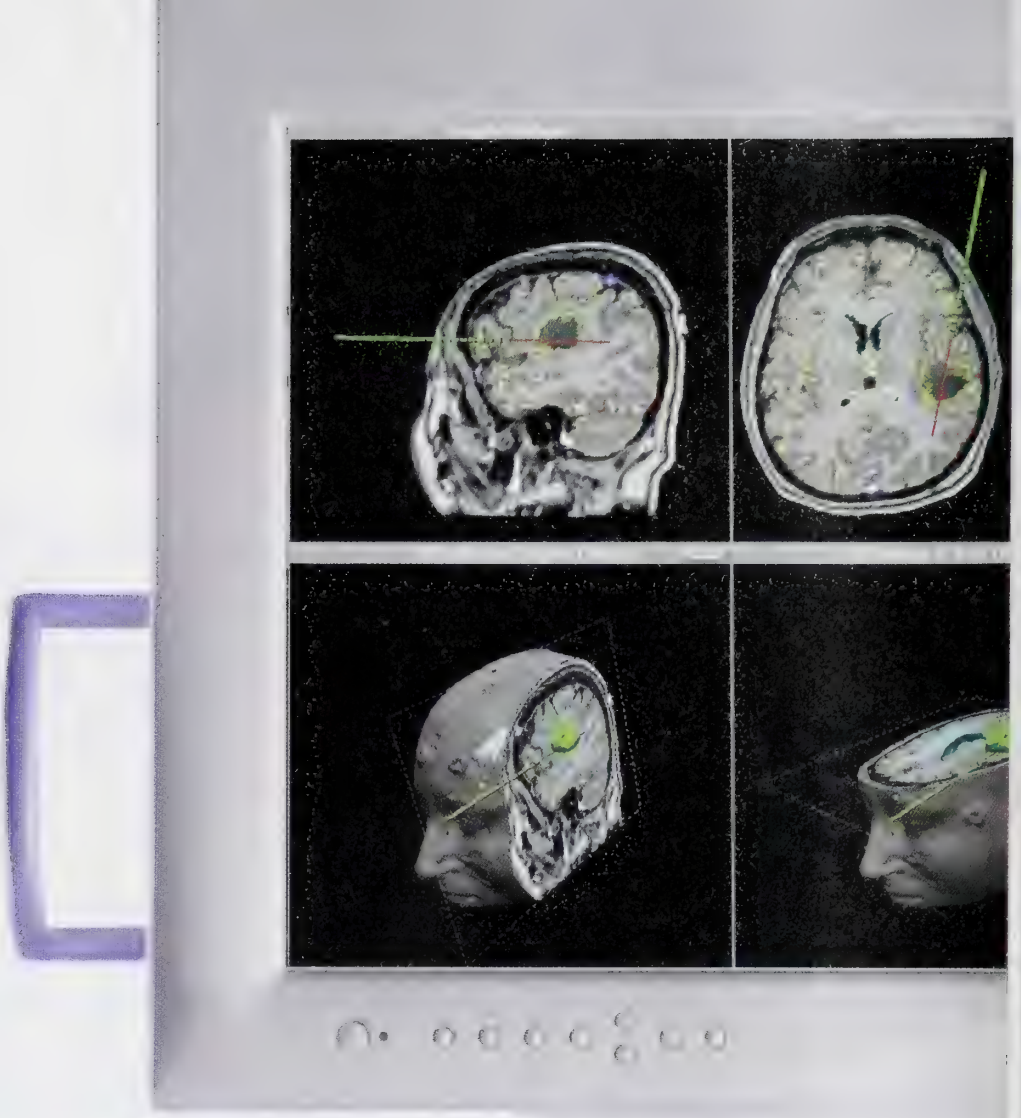
Michael Raboud, owner of Custom Flooring Installations in Atlanta, does 450 jobs a week for Home Depot. On a recent morning his crew was installing a yellow-and-cream carpet in the Alpharetta, Ga. home of office manager Paula Steed. She's a repeat customer with gushing praise for Home Depot.

But it's the unhappy customers who make all the noise. Four years ago Donald Lademann, a 59-year-old former factory manager from Brighton, Mich., had Home Depot install a $1,300 gray linoleum floor in his kitchen and dining area. The color began fading a year later, well before the end of the linoleum's ten-year warranty. In summer 2003 he called Home Depot to complain. After months of promises, Depot finally sent an inspector in March. The store, blaming the problem on chemicals tracked in from a new asphalt driveway, refused to replace the floor. But Lademann insists his family never wears shoes indoors and that he'd noticed discoloration in tiles still unused in boxes. He would like to sue but says, "to fight Home Depot in court is not an economical proposition." He now uses rugs.

The company says the number of satisfied customers far outweighs dissatisfied ones and that it almost never has to give refunds. And to deal with the information gaps that anger customers, Home Depot is in the middle of a massive four-year software project to automate quotes, scheduling and order tracking. The first test of the software, in the flooring department, will start later this year.

Lowe's claims to be further along on a similar software system for installation order tracking. By the end of 2004 every store will use the software and have added at least one employee devoted to installations. While Lowe's just started advertising installations, the unit is growing as fast as Home Depot's, and 92% of customers say they would have Lowe's install again. For both chains, services make up about 5% of sales and already turn a profit. F

GE Healthcare



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imagination at work

The juggernaut in Juneau: Alaska is Middle America's new playground.

Cruise Control

Carnival Corp. is leading the charge to open up the last frontier to the vacationing masses.

BY LUISA KROLL

THIS IS WHAT THE NORTHERN invasion looks like. By 7 a.m. four enormous white ships carrying up to 9,000 people have docked in Skagway, a town in southeast Alaska with a year-round population of 862. After they have eaten breakfast, many passengers come ashore, where they are ushered onto one of 58 tour buses—all of them owned by the cruise companies—en route to one of several dozen shore excursions. On a typical day 3,000 tourists ride the White Pass & Yukon Railway, 530 pan for gold and 190 take a jaunt in a helicopter.

Many others crowd Broadway. Once the gateway to the gold rush of 1897-98, this main street now offers 19 jewelry stores and 43 gift shops. Visitors cram into Diamonds International—one of several retailers to follow the ships up from the Caribbean—where they pick up their free charms, part of a cruise promotion. By evening the town is empty and the ships are gone.

So it goes for a nearly uninterrupted 142 days from May through September. And a lucrative trade it is. Three-quarters of all passengers book some sort of shore excursion, resulting in 10% to 40% commissions for the cruise lines. The leisure

FRIDAY:

7am-8am:
Rush hour traffic on the
way to the lawyer's office.

10am-12pm:
Stop-and-go traffic to
off-site executive meeting.

3pm-5pm:
Gridlock traffic at the
airport to pick up client.

6pm-8pm:
Rush hour traffic on the way
to meet fiancée for dinner.

(6:30pm: Channel 5 – Grand Prix.)

Life's

giants also get a cut from stores via a middleman—some merchants paying $200 to $500 per docked ship or a percentage of gross sales—in exchange for recommending the establishment and mentioning a money-back guarantee on items.

These floating hotels are transforming Skagway and a dozen other Alaskan towns. This season 800,000 passengers, 25% more than the state's total population, will visit this last frontier—or, at least, a postcard version of it. Leading the incursion is $7.6 billion (2003 pro forma sales) vacation giant Carnival of Miami, with an estimated 60% share of the Alaskan cruise market. It is piling on capacity, tripling its beds in the last decade to 474,000 and adding three ships in Alaska this year to an organization that includes Holland America (acquired in 1989) and P&O Princess Cruises (bought last year). Its extensive infrastructure includes 13 hotels, 5 wilderness lodges, 18 luxury railcars and 440 motor coaches and vans.

It's one way to redeploy assets that would otherwise be busy only during winter. Carnival sends 16 of its ships from the Caribbean, Mexico, Hawaii, the Panama Canal and Europe up north for the 20-week Alaskan summer. One-third of Carnival's passengers now depart from Seattle. Holland America is introducing the first five-day trip to Alaska in September, opening the market to the long weekend crowd. If you are willing to go in a chilly shoulder season (May or September) you and a cabinmate can do a seven-day cruise for $579 apiece.

And how do the natives feel about the crowds from the lower 48? Ambivalent. Some newspapers, politicians and residents carp about the pollution, congestion and noise. They complain the cruise industry is profiting without having to pay a statewide head or tourism tax. But then they can't afford to have the cruise lines go away. The cruise industry sent $900 million into Alaska last year, mostly in wages and retail sales. Three-quarters of Skagway's $80 million in 2003 revenues came from this source.

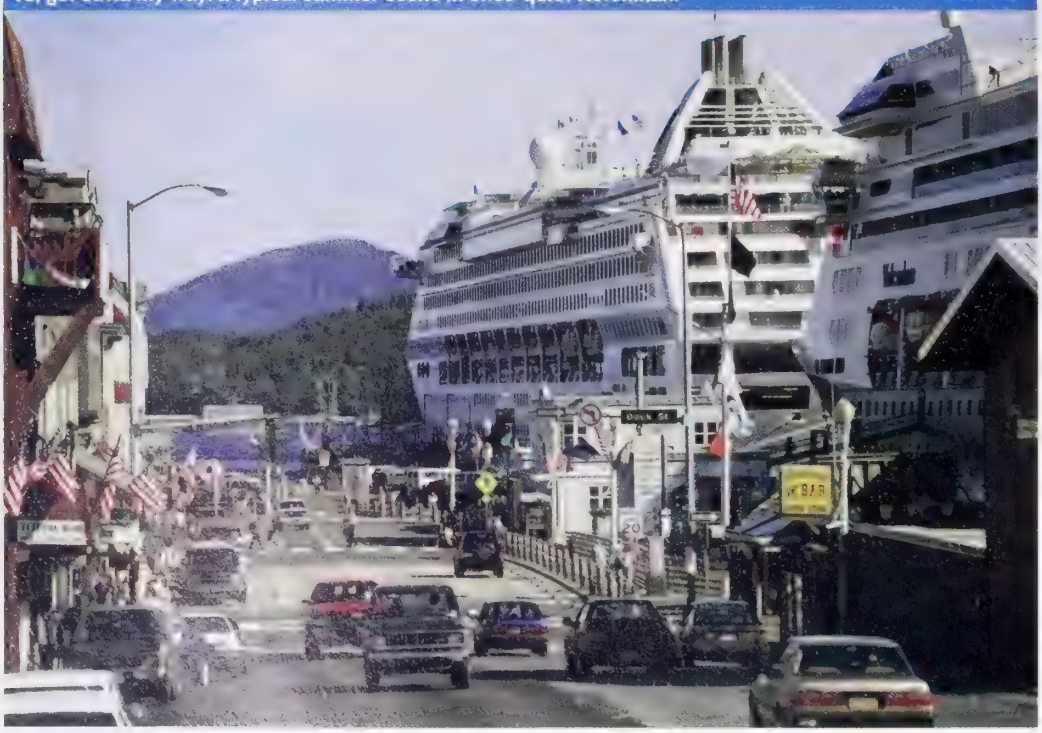
Many entrepreneurs have piggybacked on the ships' success. Steven Hites, a former railroad conductor in Skagway, lost his job in 1982 after a nearby mine shut down, causing an 85% drop in freight revenue. Today he sells eight tour packages, including Skagway's Street Car, to cruise lines, giving them an estimated 20% commission in return for bookings; he operates a retail shop that sells Starbucks, and he performs a musical narrative of Alaska's history 300 times a year for several hundred dollars a pop on docked ships. He recently followed the boats down to St. Kitts, where he and his partners started a tourist train. "If it weren't for the cruise industry, my little town of Skagway would have been boarded up," says Hites. "This anticorporation sentiment really pisses me off."

"If not for the cruise industry, my little town of Skagway would have been boarded up."

Carnival helps out with marketing. Princess, for example, posts a sign for AJ Mine/Gastineau Mill on its dock in Juneau. Several times a year a cruise line photographer shoots footage of the underground gold mine for its brochures and promo videos. Princess shares the footage with competing lines, busing all its passengers to the mine (and collecting $11 for each passenger). "The more passengers they bring, the more happily I pay them," says Jerald Harmon, who owns the tour.

Breaking in with Carnival isn't a snap. Princess Tours receives 30 to 40 proposals a year, but accepts few new operators. After several attempts, pilot Roger Fischer persuaded Princess to hook up with his glacier "flightseeing" excursion around the majestic Alaska Range—including Mt. McKinley, North America's highest peak at 20,320 feet—in part because his pressurized cabins were a hit with overweight, elderly customers. Since teaming up with Princess in 2001 he has boosted sales from $37,000 to an expected $320,000 this year, of which the cruise line's take is perhaps a fourth.

Yo, get outta my way: a typical summer scene in once-quiet Ketchikan.



SATURDAY:

(11am: Channel 5 – Grand Prix.)

Good

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LG

Life's Good

*High-definition Digital Video Recorder.

Moving masses to the mountain: 110,000 Carnival cruisers will see Denali this summer.

Holland America and Princess have been selling inland tours for decades. World War II veteran C.B. (Chuck) West opened a travel service in Fairbanks in 1946, then built the first Alaskan hotel catering to tourists and bought a riverboat to ply the Chena River. West later chartered a ship and formed the first cruise line to travel between Vancouver, B.C. and Alaska. In 1973, after a stretch of financial troubles, he sold out to Holland America. Princess founder Stanley McDonald sent his first ship up from San Francisco to Alaska in 1968; it was a sellout. He cashed in his chips six years later to P&O Cruises.

There are many more moving parts on land than at sea. Further complicating the various onshore packages is the fact that time-pressed, budget-conscious cruisers are opting for trips that depart from and return to Seattle (the 1886 Passenger Services Act requires ships that sail from U.S. ports to return to the same place). As a result, the percentage of passengers opting for additional land tours outside the ship's schedule has been flat or declining for several years. Moreover, Carnival is facing increasing competition from its biggest rival, Royal Caribbean, which began offering land tours in 2001.

So Carnival has invested a great deal to make them more appealing to the masses. Holland America, for instance, spent $24 million in the past two years buying eight new full-dome railcars. It shelled out $34 million to renovate the Westmark Fairbanks hotel and hired a guitar player to serenade guests departing for those early-morning tours. To minimize hassle, travelers receive their room keys in welcome packages before arriving at their hotels; they book their land excursions while riding the train, leaving their luggage outside the door in the morning and receiving it at their next destination. Says Dean Brown, chief executive of Princess Tours: "It's our goal to make seeing Alaska a very seamless experience for our customers."

"Our goal is to make seeing Alaska a very seamless experience for customers."

And as efficient as possible for Carnival. The result is that tours often resemble cattle herding. This year, for example, nearly all 44,000 Holland America passengers who travel to Fairbanks will visit its Gold Dredge No. 8 via its Gray Line buses, where they will eat a "sourdough" lunch of stew and biscuits, tour the site and pan for gold. Then they will crowd into the gift store where nearly identical, premeasured sacks of gold dust are weighed and put into glass lockets that sell for $10 to $15. Such trinkets account for half of the shop's $450,000 in annual revenues.

Carnival has mad Denali National Park home of Mt. McKinle into a destination tha was once seen mostly b a trickle of sinewy back packers. This summe 110,000 of its cruis passengers will travel t the park, nine hour from the nearest port Sojourning in the wilder ness requires no hard ship. Princess has built compound just five mile from the park with a 440 room hotel that include a spa, beauty and gif shops, restaurants, a the ater and a fitness center another 334-room lodge, opened in 1997 lies 110 miles to the southwest.

To funnel increasing numbers into the interior, Princess is pushing rail traffic from Whittier, a remote town on the shores o Prince William Sound, to the Denali lodges, obviating the need to spend a night in Anchorage. A town of 185 souls, Whittier is dominated by two huge former Army barracks; one houses most year-round residents, the other is in disrepair. In the mid-Nineties the town imposed a tourist tax and the ships pulled out. In 2000 its dock was condemned. To reach the place on land, you had to enter through a one-way tunnel.

That's changing. Docking in Whittier, instead of the more established Seward (pop.: 4,000), shaves 115 nautical miles off the cruise and 75 miles on land, reducing fuel costs and wear and tear on motor coaches, as well as on passengers. Princess doesn't own the recently reopened port, but it helped design the terminal building and pushed the developer to build a $500,000 covered walkway. Its five-year contract allows Princess to have first dibs on docking dates and times; the town got rid of its head tax. While most tourists are spirited away too quickly to benefit Whittier's economy, its dozen restaurants and shops are bustling, thanks to crew members.

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F0B9/04

Carnival's Crescent

The cruise operator has invested an estimated $1.5 billion in its growing Alaska empire—a far-flung fleet of ships, giant lodges, hotels, railcars, buses and vans.

Some towns are not as accommodating. Skagway's neighbor Haines—whose residents are a mix of artists, wealthy retirees, summer visitors, entrepreneurs and government employees—is deeply split over tourism. After Royal Caribbean admitted to dumping waste, the town narrowly passed a 4% bed tax and a 4% tax on organized tours in 2001. That year Royal Caribbean pulled out (it says it left for other reasons).

The drop in cruise ship visitors, from 195,000 in 2000 to 28,000 last summer, and the consequent plunge in revenue have been devastating. Several businesses have shut down, teachers have been laid off and unemployment has risen from 9% in 2000 to 12.5% in 2003. Desperate to win back tourists, Haines last year repealed the tour tax and is trying to woo back the ships. "We're [even] hanging welcome signs in store windows," says Lori Stepansky, the town's tourism director.

Some Alaskans will never cotton to the invaders. A lot of small businesses, especially those that cater to more adventuresome travelers, feel shut out by the cruise industry. "People get off the boats, get on their buses and move out," says Andrew Halcro, a former state senator whose family owns the Avis franchise in Anchorage. "Their passengers don't pay a dime, while my customers pay a 28% tax on a rental car." A rafting outfit accuses the cruise lines of overcharging customers by demanding a 30%-40% cut. "You have to mark up your prices beyond what it was worth," complains the operator.

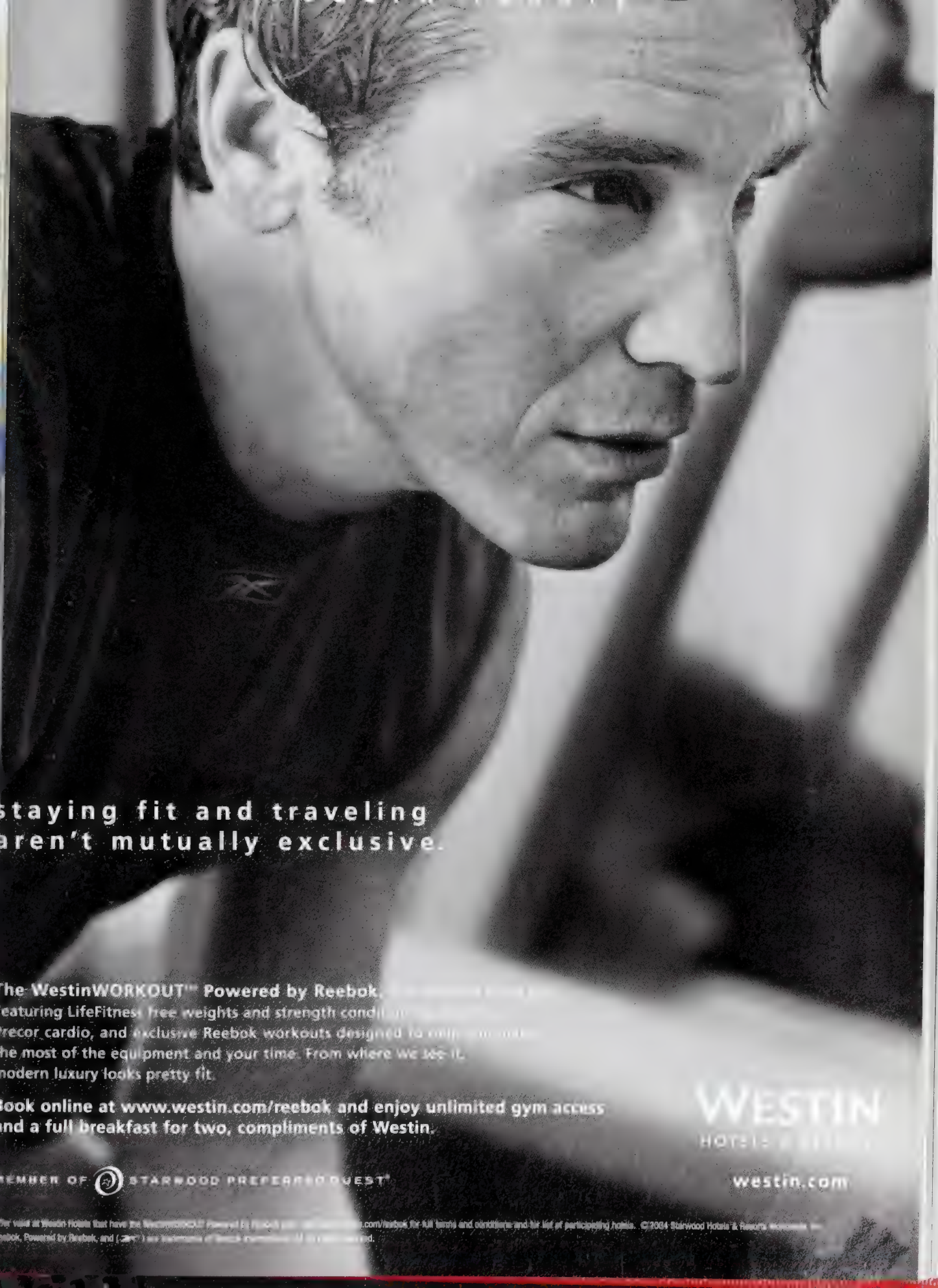
Even Carnival's vendors feel frustration. "Because of when ships arrive, I am very busy Monday through Thursday, and slow the rest of the week," says Timothy McDonald, vice president of marketing for Temsco Helicopters, a tour operator in Juneau and Skagway. "Scheduling ships on a more even basis would help me and vendors in all ports." Merchants who don't participate in sales promotions pushed by Carnival and its rivals say that a shopper may be left with the mistaken impression that their stores aren't reputable.

Some Alaskans will never cotton to the invaders and feel shut out by cruise lines.

And there is always a populist group that would either do away with the boats or tax them to death. In January Republican Governor Frank Murkowski proposed a 5% bed tax on all hotel rooms and cruise ships in Alaskan waters. It would have brought in an estimated $49 million a year. The powerful cruise lobby, with many allies in the state legislature, sank the bill. Its argument: that a tourism tax where there is no state income, sales or property tax would unfairly burden the cruise business. Besides, they point out, Alaska is still awash in cash, thanks to the $25 billion Permanent Fund, which has set aside 25% of revenues from the oil industry since 1976.

Carnival has lately tried to be a better neighbor. In Juneau, where most of its boats dock at some point along a tour, Princess ships turn off their diesel engines and plug into the city's surplus hydroelectric power, cutting down on emissions; its newer craft rely on gas-turbine and diesel engines. Led by Kirby Day, Princess' director of shore operations, the industry worked out a plan with Juneau to cut down on noise (prohibiting flightseeing tour departures before 8 a.m. or after 7 p.m.) and pollution (encouraging motor coaches to turn off engines when loading and unloading passengers). The company also makes small goodwill gestures—springing for a free onboard lunch for all fifth-graders in Juneau and $5,000 for emergency medical services in Whittier.

Speak softly and carry a big stick. Carnival's best protection against ravenous tax collectors is the ease with which it could decamp. F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The Friendly Voice on the Line Keeps Customers Happy ... and Buying

New Speech Technology Cuts Costs, Increases Customer Satisfaction

"HOW MAY I HELP YOU?" THE VOICE IS CLEAR, FRIENDLY AND INTELLIGENT. BUT IT'S NOT human. Instead, it's an automated computer voice mimicking a live agent, ready to carry out whatever task your customers request. Say good-bye to the emotionless robot voices your customers have come to expect.

Voice recognition technology is ready for prime time, and callers say it's a hit. They're spending 25% less time tied up "on hold." They're 40% less likely to abandon the call. And they're costing companies as much as 50% less to service.

"Callers say they're very impressed with the new technology," says Eric Shepcaro, vice president of emerging services at AT&T. "And so are the call centers. They're saving money, selling more and improving productivity. It's win-win for everyone."

Whether it's "I need my account balance" or "I have a billing problem," the technology today can handle the most intricate of customer requests, even those involving sensitive financial transactions, complicated computer breakdowns or frustrating mail order refunds.

According to Shepcaro, voice recognition technology has enabled call centers of every size and type to improve productivity, reduce overhead and keep customers coming back. No surprise there, as callers are far less likely to get entangled in a jungle of dialogue trees (the hierarchy of automated prompts meant to lead callers to the appropriate agent).

And while customer satisfaction is going up, the cost of servicing customers is going down.

Shepcaro cites the recent successes of a major automotive insurer. Thanks to voice recognition technology, the company has seen an increase of 50% in service level improvements, while requiring fewer staff to handle the lien holders' questions. Additionally:

- A toy retailer handling two million calls annually at four call centers was able to cut expenses in half and reduce call abandonment by 40%.
- A pharmacy benefits provider handling more than 35 million calls a year was able to cut costs of prescription processing by 35%, resulting in a savings of more than a million dollars a year.

One of the latest advances in voice recognition technology comes in the form of AT&T's VoiceTone™, considered by call centers to be one of the most intelligent, flexible and responsive systems ever created.

The system, capable of understanding and speaking mor than 200,000 words, can change its own regional dialect and accents at a moment's notice. For instance, it will know to say "soda" to a New Yorker, but "pop" to a Kansan, and refer t a "bag" of apples in the Mid-Atlantic States, but a "sack" o apples in the Midwest. According to Shepcaro, such subtl changes in dialogue have made a significant difference i how callers interact with the system.

Additionally, says Shepcaro, a real live agent can always com on the line when needed, armed with the information th customer already supplied. This capability, too, has been highl praised by customers.

The flexibility of VoiceTone enables the call centers t easily make real-time adjustments in the dialogue tree For instance, if callers start asking questions the system hadn' been programmed to handle before, the call center can quickl add in a series of appropriate new responses. Prior to VoiceTone such a change would have required a significant overhaul an reprogramming of the system.

As an increasing number of new technologies like voic recognition emerge on the horizon, Shepcaro advises tha companies first ensure that any new software can be easil integrated into existing systems. Building and improving upo the current infrastructure is the way to go, he says, an new investments should be evaluated not just for their potentia return on investment, but for how well they can demonstrat benefits to customers.

"The balance of power today has shifted to the customer," say Shepcaro, "and any investment in customer satisfaction will mor than pay for itself quickly."

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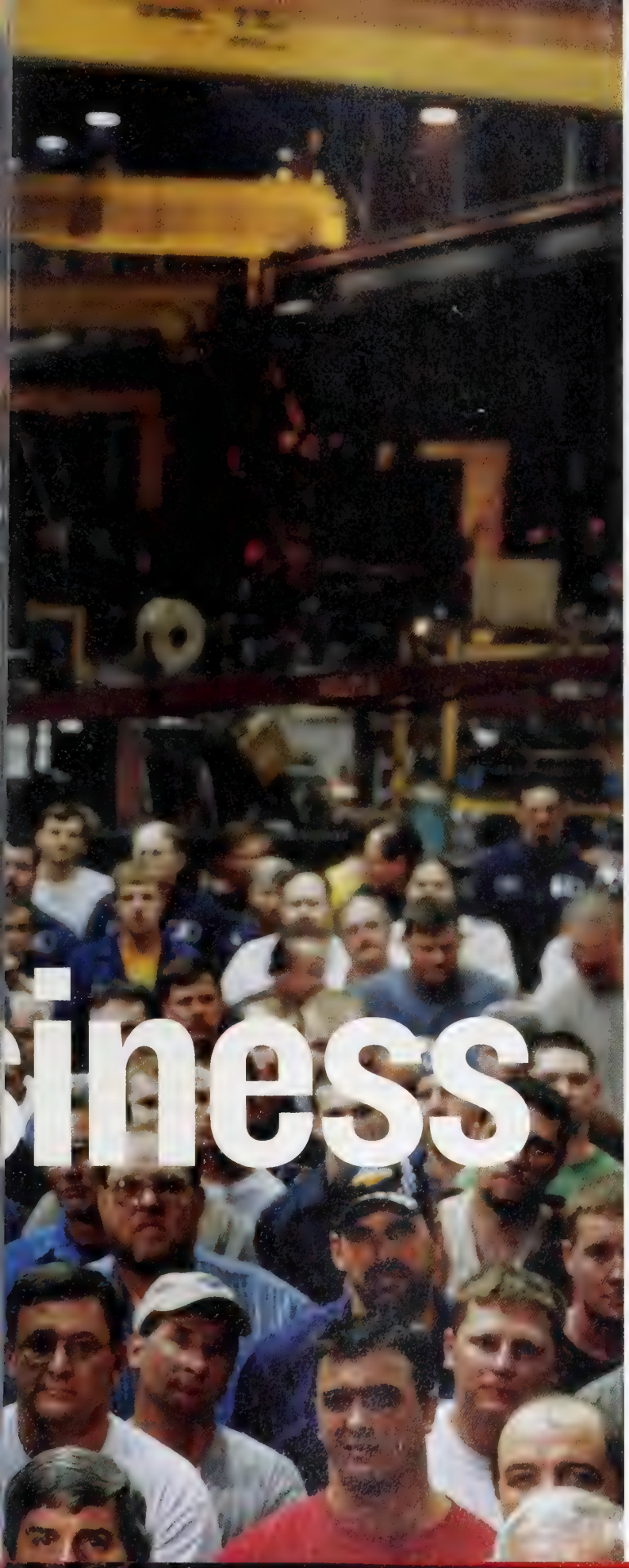


Pennsylvania was a blue state in the 2000 election. But in politically divided Johnstown, it's the color of money that counts.

BY TOMAS KELLNER

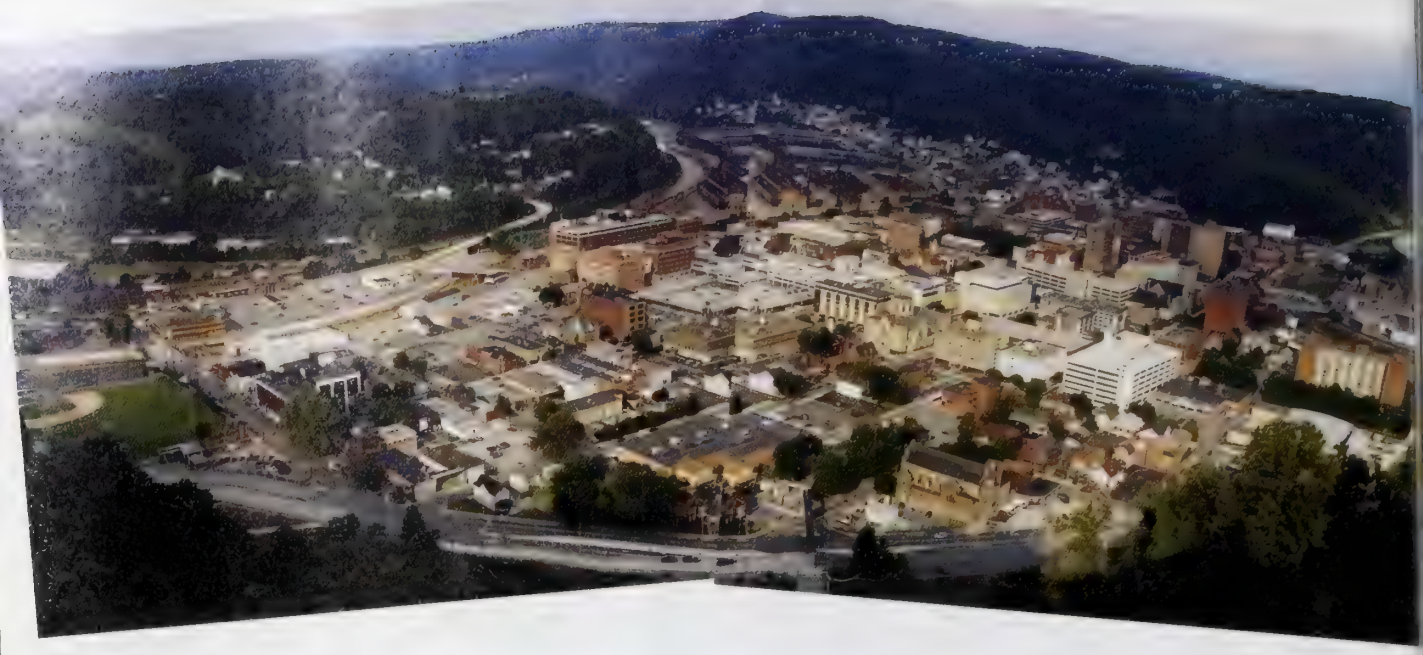
PHOTOS BY MICHAEL J. N. BOWLES FOR FORBES

JOHNSTOWN, PA. IS A SWING TOWN IN a swing state. Last time Al Gore edged out George W. Bush in surrounding Cambria County by 1,700 votes out of 60,000 cast. The same folks reelected Republican Senator Rick Santorum by 582 ballots. Today Johnstown, a hard-scrabble blue-collar community, is still politically split down the middle, as is much of Pennsylvania, whose 21 electoral votes are very much up for grabs this November.

Step into town—wedged between steep verdant hills and the Stony Creek and the Little Conemaugh rivers—and you get a very different picture. From its spotless streets and carefully hoed pansy beds on front lawns, you'd hardly suspect how much the city is hurting. Unemployment, while down from 8% in January, hangs stubbornly high at 7.4%, above the state's rate (5.6%), which is identical to that of the U.S. At $28,000, median household income is one-third lower than that of the nation; houses sell for as little as $18,000, and $150,000 will get you a five-bedroom mansion. Walk the neighborhoods and you won't find any gutted homes, graffiti or panhandlers. You also won't find any teenagers on skateboards or young moms. Since 1990 the number of Johnstownians between 18 and 35 has shrunk by a quarter.

It sounds like a perfect opportunity for political exploitation by one party or another. But Johnstown has survived by putting aside partisan politics. While it may have gone blue in 2000, it's the color of money that really counts here. Republican busi-

"I had no choice": William Polacek is a third-generation Johnstownian, but a first-generation entrepreneur.



First floods, then economic ruin: Johnstown is recovering from decades of devastation.

nessmen have bankrolled Democratic politicians who fetch government money and contracts, and solid Democrats behave in avowedly libertarian ways whenever that will benefit their enterprises.

People from opposite poles have had to find common cause, thanks to Johnstown's cursed history. A flood in 1889 killed 2,200 people, all but wiping the town off the map. A milder flood in 1977 ripped up sewers and roads, causing $300 million in damage. Already hurting from cheap Japanese and Korean imports, Bethlehem Steel, the town's largest employer, slashed its payroll of 13,000 by 40% and eventually shut down for good in 1992. Johnstown's jobless rate shot up to 24%, the highest in the nation. Its population dropped 48% between 1960 and 1990 to 28,000.

The demoralized city found help in John Murtha, a powerful dealmaker on the House Appropriations Committee. Murtha, a Democrat who used to run a car wash in Johnstown and was first elected to Congress in 1974, promised to bring money and jobs. That endeared him to many Republican businessmen. "You're damn right they switched," says Murtha of those who cross party lines to vote for him. "We take care of the base." Translation: Bring in the pork—as in hundreds of millions of dollars over the span of his political career in federal aid to fix roads, sewers and water pipes—to lure private enterprise, in this case defense contractors.

Republicans play a similar game. Donato Zucco, a Republican and mayor since 1994, works closely with Murtha and state politicians, mostly Democrats, to get funding. Every six weeks he meets with 35 chief executives from Johnstown's largest companies, then goes off lobbying to Harrisburg or Washington. In good GOP fashion he has revamped and trimmed the city's budget and contracted out the management of municipal parking garages. But he has also increased the tax base by going after three hospitals to challenge their tax-exempt status in court. The hospitals settled and now pay $350,000 into the city coffers every year.

What holds Johnstown together? Let's answer that question by looking at four very different employers.

THE ACCIDENTAL ENTREPRENEUR

William Polacek leaned on the government twice. Once to train unemployed veterans, welfare recipients and petty criminals. And once for a $325,000 cleanup grant, part of Pennsylvania's brownfield program, to expand his Johnstown Welding & Fabrication Industries into a plant once owned by Bethlehem Steel. Fourteen years later Polacek, who started out welding leaky boilers and cracked car frames, employs 400 people and is on track to earn $3 million on $90 million in revenue. "This guy is something," says Representative Murtha. "He did this on his own."

"I had no other choice," says Polacek, 43. "It was either that or leave town."

Polacek's grandfather was a "hunky," an unskilled eastern European who stoked Bethlehem blast furnaces six days a week for $1.50 a day. Bill's dad, a loyal union man, made $10,000 a year welding iron for Bethlehem, not enough to support nine kids. So he started a small welding shop in his garage—which provided son Bill with a trade that would carry him through rough jobless patches in Johnstown (Bethlehem was a perpetual layoff machine after the 1977 flood—and the cascade of cheap imports) and three years knocking around the South.

By 1987 Bill Polacek had built up his welding business to the point of bidding on a job from Bethlehem. Then his dad died, soon after surgery to remove a tumor. The funeral was set for the day the bid was due. The night before, "I remember sitting at home, looking at the blueprints," says Polacek. "When he was gone, it felt sort of like a slap in the face to grow up."

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Consumers BP markets its products in more than 100 countries. Our fuels are sold at thousands of service stations and convenience stores and continue to outpace the industry rate. BP products are used in films, fibers, pharmaceuticals, plastics, and we market Solar Solutions globally.

Responsibility We were the first major energy company to acknowledge that precautionary steps were needed to reduce greenhouse gas (GHG) emissions. We met our own GHG reduction target 9 years ahead of schedule and we voluntarily introduced cleaner fuels 6 years before E.P.A. mandates.

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From PCs to missiles: William Kuchera.

Polacek got the job and enough new work to build a 3,600-square-foot shop. Within six months he outgrew it, sold it for $100,000 and prepared to put down money for a bankrupt 60,000-square-foot factory. That's when the environmental police warned him that if he closed on the plant he could be liable for a costly cleanup of slag contamination from the long-idle blast furnaces. Polacek had everything riding on the deal—loans for the factory, new equipment, jobs on the books and paychecks to cut. Hunkering down with his lawyer, he scuttled the purchase transaction in favor of a $1-a-month lease agreement with the property owner and used the $100,000 in cash from his old shop to buy more presses, cutters and welding machines. After bagging the brownfield grant, he was able to pour a new concrete floor and, for $30,000, take title to the place.

Five years ago Polacek bought the gutted shell of the original Bethlehem mill, spanning an area as large as nine football fields, for $1.5 million and invested another $4 million in new equipment. Today his workers weld bridge trusses, aluminum airplane loaders, deicer booms and heavy equipment parts for dozens of customers, including Ingersoll-Rand and FMC. Johnstown Welding also owns and operates businesses that do robotic welding, laser cutting, protective-powder coating, heavy machining and assembly.

His employees share in the bounty. A lifelong Democrat, Polacek pays non-union wages of $10 to $17 an hour, but shares a portion of any profits that exceed 3% of total sales. Big banners on the factory walls declare: "Zero defects. No exceptions. No excuses." If welders go for four weeks without a mistake, their hourly pay for the month goes up $1. Polacek says that his best welders can earn as much as $60,000 a year, including overtime. Four years ago, after a particularly grueling job for aerial platform maker JLG Industries, Polacek flew 100 employees, plus 50 spouses, to Miami and, from there, put them on a four-day cruise to the Bahamas. Says he: "Some of these people had never been on a plane."

THE WAR MACHINE

When several defense contractors paid a visit to Johnstown in the late 1980s, they found garage-bound electronics operations that couldn't meet basic product standards. A frustrated Murtha brought in a Pentagon procurement expert (at government expense) and set up training programs. "I told our guys, 'You gotta do quality work,'" says Murtha. "'If you don't, we're going to lose.'"

One potential loser was Kuchera Industries. A family business run out of a 1,000-square-foot space by William Kuchera and his brother, Ronald, it was barely squeezing out $100,000 a year in sales by assembling circuit boards for PC monitors. Murtha hooked them up with a program run by Hughes Electronics with instructions on how to bid on military contracts; it also helped refocus the company on building missile guidance system parts and leasing robotic soldering machinery for assembly. Hughes even donated used equipment, like workbenches.

Most helpful of all: a suggestion to hire the disabled from a nearby rehab center—soldering is, after all, sedentary labor—who now make up 30% of Kuchera's work force. That decision put Hughes in a favorable spot when it came to winning Pentagon work, and it persuaded the government to pick up Kuchera's $7 million training bill. The brothers have nabbed work from Raytheon, Northrop Grumman and L-3 Communications. Last year they earned

It's time to think outside the barrel.

Emissions We were the first major energy company to acknowledge that precautionary steps were needed to reduce greenhouse gas emissions. One step we're taking uses cogeneration, a process that turns steam into electricity. At one of our refineries, it helped us reduce nitrogen oxide emissions by 50%.

Education Our Leader Awards Program has added millions of dollars to schools and communities for educational programs. Our Solar in Schools Program, an innovative learning experiment, puts solar not just in the curriculum but in the school, providing energy for the building.

Environment To provide heat, power and mobility for the U.S., new pipelines have to be built. In Louisiana, BP pioneered a new standard for pipeline construction. Working with environmental groups, community leaders, even local oystermen, we produced a solution that preserved wetlands.

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$4.5 million pretax on revenue of $45 million. Half the business comes from assembling missile electronics, bomb-spotting robots and navigation circuits for the Bradley Fighting Vehicle and unmanned helicopter drones.

HONEST GRAFT

If you want to be in real estate, it helps to be able to get the attention of politicians. Mark Pasquerilla has connections. He's a fundraiser for John Murtha. He's chairman of the Greater Johnstown Regional Partnership. He's a civic booster and philanthropist. And he's got the mayor of Johnstown on his payroll.

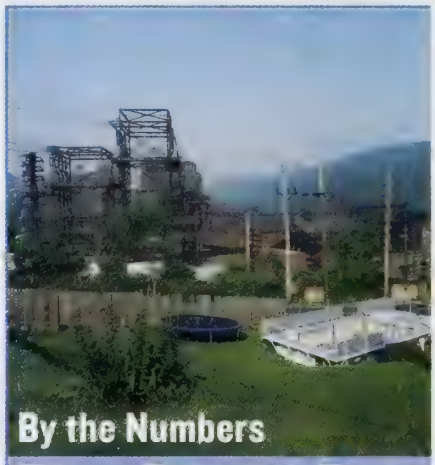
Pasquerilla, 46, is heir to the Crown American Corp. mall and hotel fortune. In the 1980s he was flying around the country with his father, Frank, Crown's founder, in a sleek white Challenger jet, visiting groundbreakings and mall openings. At his peak, his dad ran 28 malls, 73 Hess's department stores and 20 Holiday Inns, Comfort Inns and Super 8 Motels. With a net wealth of $350 million, Frank was on The Forbes 400 list of the richest Americans and considered buying Bloomingdale's. Frank died in 1999 and the family fortune has dwindled since, but it still makes Mark the richest man in Johnstown.

"I'm a big Republican here," says Mark on a recent afternoon, sipping a gin and tonic at the Holiday Inn, which he owns. But that doesn't stop him from bankrolling Democrats like John Murtha, for whose reelection in 2002 Pasquerilla helped raise $300,000 and wrote endorsements published in the Johnstown and Pittsburgh papers. "I'm a fiscal conservative, but I'm also too practical to think that government money is going to be distributed around the country fairly," he says. "We've got to fight for our share."

"The trick is to find out what's going on before it goes on," says Donato Zucco, who works part time as Johnstown's $3,500-a-year mayor and full time at Crown as executive vice president (salary undisclosed). So far the partnership Pasquerilla presides over has snared $45 million in state and federal funding, paying for a highway bypass as well as a children's museum. "I wish that Michael Dell would come to Johnstown and open a factory," says Pasquerilla. "But we have to work with the cards we're dealt."

Pasquerilla sold Crown's mall business to the Pennsylvania Real Estate Investment Trust for $380 million in stock and $758 million in assumed debt last year. Of the resulting layoffs, says Pasquerilla, "not everybody has gotten a new job." Now he is trying to sell 22 of his 27 hotels, Crown's remaining real estate assets.

Pasquerilla has donated more than $10 million toward three civic projects (a theater, a conference center and a museum; ground breaking takes place in a year or so). The goal was to make Johnstown attractive enough to lure new businesses. But so far this year Wynton Marsalis and the Vienna Boys' Choir have been the only luminaries to show. Says Pasquerilla: "This picture isn't finished."



By the Numbers

From Rust to Bust

Johnstown has a history of climbing out of adversity. Can it do so again?

$23,885 Average per capita annual income.

41.2 years The median age of the city's population.

13.7% The percentage of Johnstownians who hold B.A. degrees.

$62,700 The median price of a house in the area.

A BIOTECH BOOMLET

The Windber Research Institute is in a handful of buildings 10 miles outside of Johnstown, built in 1906 as a hospital for a coal mining company. The center is still mining—reams of tissue samples, put into sequencers that break them down to identify cancer-causing mutations in genes and proteins. Some of the data have produced a breast cancer vaccine now in Phase II clinical trials at Windber and the Walter Reed Army Medical Center in Washington.

This came about through happenstance. In 1997 Windber's chief executive, Nicholas Jacobs, found himself at a dinner party seated next to Representative Murtha. Jacobs, who holds master's degrees in trumpet and hospital administration, had just commissioned an audit of the Windber hospital; the prognosis was grim. Murtha had recently appropriated $25 million for mammography and breast cancer research at Walter Reed.

Murtha scrounged for another $7.5 million in federal funding. Jacobs went shopping: liquid-nitrogen freezers for banking biopsy tissues; microlasers for dissecting tumor samples; and a mass spectrometer for protein analysis. He hired 40 physicians and Ph.D.s to create a database of 10,000 tissue samples from Walter Reed and other military hospitals, paired with data about whether the donor smoked, lived under high-tension wires, used an electric blanket, grew up on a farm, etc. Jacobs also worked out a deal with the Nigerian Army to receive rare Stage IV breast tumors, unavailable in the U.S. since growths here tend to be diagnosed and excised early. Data mining identified cancers that respond well to vaccines and targeted genetic drugs. "It's truly individualized medicine," says Jacobs.

In five years Jacobs has won $75 million in research contracts, the majority from the government. Walter Reed ran its first breast cancer vaccine trial on 14 patients in remission last year. (Only one had a relapse after the trial ended.) Windber research has yielded three patent applications for exploiting the data in gene mutations causing breast cancer. It's a far cry from the hospital's work of yore—treating black lung disease and limbs severed in mine accidents. F

Michigan

SCORES NEW OPPORTUNITIES FOR BUSINESS AND RECREATION

By Susan H. Burnell

FIFTEEN MILES NORTHWEST OF DETROIT, ONE OF GOLF'S MOST DRAMATIC EVENTS WILL PLAY OUT ACROSS THE SOUTH COURSE OF THE OAKLAND HILLS COUNTRY CLUB. THE COMPETITIVE FIRE, TEAM PRIDE AND PRESTIGIOUS HISTORY OF THE RYDER CUP MATCHES ARE A PERFECT METAPHOR FOR MICHIGAN'S INVIGORATED BUSINESS CLIMATE.

nds Hills Country Club

e 35th Ryder Cup in September is expected to draw up to),000 fans to the course each day, and it will receive an cedented 27 hours of worldwide television coverage. gan's leaders are looking for the event to draw attention to the s ideal environment for business and pleasure. They're y on a winning streak. Michigan has attracted 10,000 new busi- levelopment and expansion projects, more than any other state, the past seven years.

e Ryder Cup is a once-in-a-lifetime opportunity for companies region to showcase what's happening here," says John orst, vice president, external affairs for Denso International ca's North American headquarters in Southfield. "We see it as lous opportunity to expand our business relationships. We'll be the occasion to bring customers to Detroit and combine face-to-face meetings with the experience of a world-class sporting event." Denso International America, headed by President and CEO Mitsuo Matsushita, supplies advanced automotive technology to the world's major carmakers. The company is one of the Ryder Cup's sponsors.

"The Ryder Cup helps us showcase Michigan as one of the world's premier golf destinations. It is also an opportunity to promote Michigan as a great business location," says Donald E. Jakeway, president and CEO of the Michigan Economic Development Corporation℠ (MEDC).

The gathering of golf's greats is just one of a strong lineup of major sporting events for the state. Detroit will host the 2005 Major League Baseball All-Star Game, Super Bowl XL in 2006 and the 2009 NCAA men's basketball Final Four.

"This string of top-quality events will attract visitors as well as media," says George Zimmermann, senior vice president of Travel Michigan and Business Marketing for the MEDC. "That gives us an opportunity to dispel some myths. Yes, we have a long history of auto manufacturing, but what's less known is how much of the industry's advanced technology — the 'brains' of the business — is developed right here. And people may be surprised to learn we have the nation's second-ranked business climate, according to *Site Selection* magazine."

COMPETITIVE FIRE — CAPITALIZING ON AUTOMOTIVE R&D STRENGTHS

Michigan is home to 85% of all vehicle-related research and development activity in the U.S., with companies spending $13.5 billion annually on automotive R&D. In addition, Michigan ranks second nationally in total R&D expenditures with more than $18 billion invested annually.

Denso International America has had a Michigan presence since 1966 and the company has been strongly supported by the state from the beginning. Last year, Denso Manufacturing, which designs and produces advanced automotive heating and cooling systems, chose Battle Creek for a major expansion. The company had considered another state for the manufacturing facility, but a single-business tax credit offered by the MEDC helped seal the deal.

"What might surprise corporate executives about Michigan is the scope and robust nature of product development and engineering taking place here," says Voorhorst. "We're ranked first in the nation in the amount of automotive R&D, and second nationwide in total R&D expenditures. This doesn't surprise those of us who grew up here — we take it for granted."

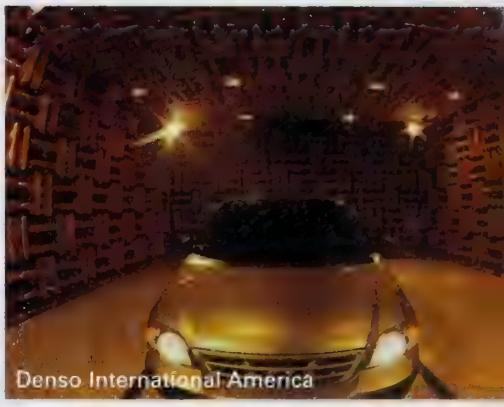
Hyundai-Kia America Technical Center recently decided to establish its new headquarters and R&D center in Superior Township, and will invest a total of $117 million in the project.

"Michigan has always been a leading center for automotive research in the U.S.," says President Dr. Won Suk Cho. "With outstanding universities — the University of Michigan, Wayne State and Eastern Michigan — so close, and proximity to government offices like the Environmental Protection Agency, it is no wonder so many automotive companies have research facilities nearby. The level of engineering talent is outstanding and the ability for us to grow our presence in the research area is unmatched."

Michigan won out over Alabama for the facility, even though Hyundai has an existing manufacturing facility there. Tax credits offered by the state helped convince the company to remain and expand. "The support from the state of Michigan has been absolutely tremendous," says Cho. "Governor Granholm's programs make it clear to companies that Michigan is the place to be. Frankly, without such support, it might have been very difficult to convince our management in Korea tha should stay here."

Nissan Technical Center North Americ been in Michigan since the mid-1970s company built a research and engine campus in Farmington Hills in 1988 recently invested $38.8 million to expa A single-business tax credit was approv the MEDC to support the expansion

Rendering of the Hyundai-Kia America Technical Center


Denso International America

The Ford F-150 Assembly

"We chose Michigan primarily because of the availability of kn edgeable engineering and technical resources, and because mo the major automotive suppliers and technical centers are here.

-John Calandro, Director of Human Resources and Administr Nissan Technical Center North Am

Photography by Philip T. Dattalio

will focus on high-value research, engi-
ng, design services and enhanced
uter simulation. "Our role is new
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John Calandro, director of human
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OVATION IN ACTION: THE HNOLOGY TRI-CORRIDOR

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chigan's Technology Tri-Corridor (TTC)
ntroduced by Governor Jennifer M.
olm to fuel further growth in automo-
echnology, homeland security and
ciences. The MEDC administers the
wide program. "The Technology Tri-
or is really designed to capitalize on the
ess we've had in the Michigan Life
ces Corridor," explains Jeff Mason,
C's senior vice president for technology development. "Since we concentrated on growing that industry just four years ago, we have brought in 95 new life sciences companies. Now we have expanded our focus to include homeland security and defense, and advanced automotive technology, and we look for opportunities within the corridor where there is convergence.

"For example," Mason continues, "there are now a number of companies looking to create very small probes or sensing devices. These may have applications in the medical field, sensing and monitoring patients for diabetes or other conditions. The same technology may have an application in homeland defense, for sensing chemical or biological agents. It may also be useful in the automotive industry, for sensing tire pressure or tire wear."

The Technology Tri-Corridor is focused on advancing basic and applied research and supporting commercialization in the life sciences, homeland security and advanced automotive technology sectors. In the most recent round of annual funding, the TTC awarded $24 million to 22 award winners from Michigan's research universities to entrepreneurs to innovative companies. Sensigen Corporation was this year's largest single award winner. The Ann Arbor early-stage company was awarded $2.6 million to develop a diagnostic test kit that will detect chronic kidney disease and the likelihood of future kidney failure. Other winning technologies include a revolutionary welding method for use in advanced vehicle production, detection and therapy of certain tumors and an innovative rapid prototyping system for the tool and die industry.

Unique to Michigan are its highly effective SmartZones℠. SmartZones are designed to commercialize ideas, patents and other opportunities originating from university and private research and development.

Since 2001, 60 companies have located in SmartZone clusters throughout the state.

"Having the Ryder Cup here will help to highlight the state's natural beauty. Michigan has such inherently beautiful places to enjoy in all four seasons, and very few people realize how many outdoor activities there are to do in the state, and how accessible they are. From a resort on the Great Lakes, the vista looks like the ocean, and it's breathtaking."

-Stephen Kircher, President of Eastern Operations, Boyne USA Resorts

Courtesy of MEDC

companies have access to state-of-the-art research facilities and support networks as well as marketing and other resources critical to the growth of emerging businesses. Business accelerators within seven of the SmartZones help with business plans, market research, technical issues and financing. Since July 2002, the business accelerators have helped raise nearly $200 million in capital for young firms.

Two notable SmartZone successes are GS Engineering and Dendritic Nanotechnologies (DNT). GS Engineering, located at the Michigan Tech Enterprise SmartZone, has developed innovative wheel designs for military vehicles. In just one year, the company has gained more than $1.6 million in contracts and granted more than $510,000 in subcontracts to Michigan Tech. DNT, located in Central Michigan University's Center for Applied Research and Technology, is now the world's leading dendrimer research and manufacturing center. Its advances in the study of the characteristics and behavior of microscopic dendrimer molecules offer promise for a number of applications, including delivery of medications and improved gene therapy.

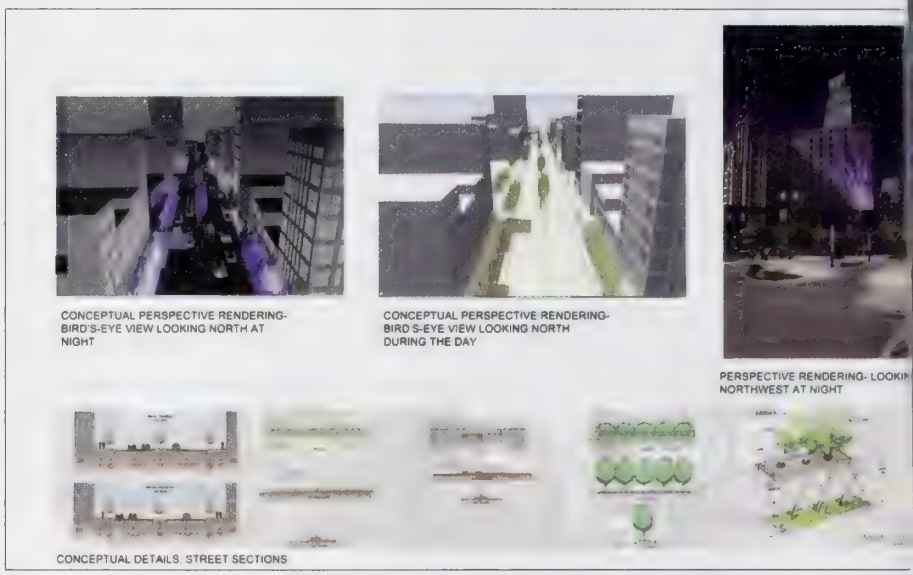
REENERGIZED AND GAINING MORE WORLD ATTENTION

Detroit's winning bid for Super Bowl XL has spurred a new round of development. The Detroit Economic Growth Corporation (DEGC), a partnership that leads the implementation for business and economic initiatives in the city, has more than $100 million in projects slated between now and early 2006. One of the largest, the Lower Woodward Improvement Program, aims to bring 900 new residential units and 50 new small businesses to the area. Other projects include downtown streetscaping and a 1.6-acre park with a water fountain, ice rink, sculpture and two stages, which will serve as a major venue for activities during Super Bowl week. And in the corridor between the airport and downtown Detroit, the new $14 million Gateway Bridge is slated for completion in late 2005.

Among its broad range of financial, technical and developmental services, the DEGC helps companies navigate tax abatement and tax incentives programs, especially if those require public approval, says Peter Zieler, economic development representative. "CEOs tell us their experience with us is by far the best they'd had, in terms of our proactive stance, our energy, enthusiasm and willingness to go the distance for them."

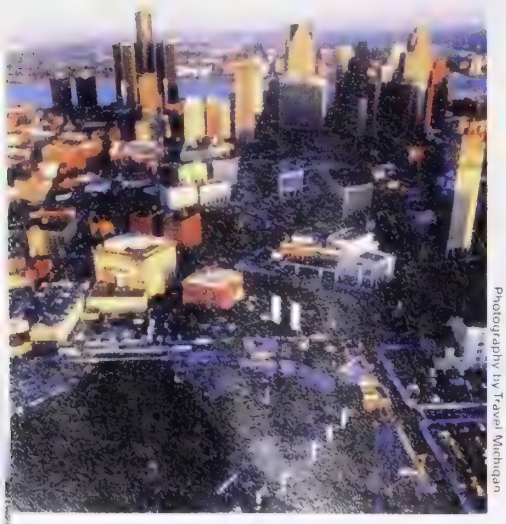
One of Detroit's oldest economic development entities is the Detroit Renaissance, launched by business leaders in 1970. The nonprofit organization has evolved to encompass public policy issues and a strategic to the city's continued ec health. Its wins for the city include Motors' purchase of the Renaissance in 1996 and Chrysler Corporation's $1. investment in plant expansions, and d residential and commercial inves "Efforts similar to the Detroit Renai are under way around the state," sa Kaczmarek, MEDC's senior vice presic community development. "The ide pull together private-sector leaders interface with public leadership an capital, recognizing that public-privat nerships are a key ingredient to succ business retention and attraction."

Rendering of Broadway Streetscape, a section of the Lower Woodward Improvement Prog



CREATIVE TEAMWORK

Detroit is awakening to its cultural a most visibly through the Create Detroit ization founded by the Detroit Regional C ber in partnership with area universities, dations, the City of Detroit and the Gove office. Drawing its inspiration from Gov Granholm's "Cool Cities Initiative" an book *The Rise of the Creative Cla* Carnegie Mellon University Professor R Florida, Create Detroit is working to mak Detroit region a cultural magnet for economy talent.



Photography by Travel Michigan

Comerica Park and Detroit Skyline

e concept is exciting to companies g to attract and retain creative people opportunities," says Ann Cuddohy ik, director of the Detroit Orientation te at Wayne State University, who was mental in the founding of Create t. "We know that young people and e people move to an area for its attrac- ss, and then figure out the job. It's before work.' So we hope to change nversation about Detroit, which will in tract people to the region.

one visioning exercise, Create Detroit pants looked at Detroit 20 years out," lawnik. "We recognize that we are a nnected community. That's Detroit — ve our cars here. But what an over- ning number of people want to see is a ble community, with people on the s, working, shopping, eating and living, her cities where there is population y downtown."

roit Synergy is another organization g to help the revitalization of the down- area. It's members are Detroit citizens are creating a greater dialogue and ness of issues, including downtown pment in advance of the Super Bowl, transit and community image, says arek. "We've been able to generate a more positive attitude about the city g residents," he says. "The proof that it Synergy is having an effect is that of the people who have participated moved from suburban communities he city."

sidents who seek music and culture will in a growing mosaic of special events, rts and exhibits throughout the city at ime of year. The city is home to the it Institute of Arts, ranked fifth largest g the nation's fine arts museums and n the nation for its American art collec- A 20-block stretch in Midtown Detroit's rsity Cultural District is transformed in by the Detroit Festival of the Arts. The dimensional event combines fine arts and crafts and a lively assortment of music, dance, theater and food.

Long known for its Motown sound, Detroit is now creating a new musical heritage as the birthplace of techno music. Thriving on the rising popularity of this music style, the Movement-Detroit's Electronic Music Festival, held each May, has gained international stature. With attendance now in excess of 600,000, the weekend event has created a very noticeable buzz with techno music fans, and it's successfully changing the way local residents feel about Detroit's downtown entertainment scene.

In every season, Michigan offers world-class culture, entertainment and recreation. With big-city style and small-town tranquility, Great Lakes and great links, summertime sanctuaries and winter thrills, it's a place of welcome for all. ■

"The techno and electronic music scene here in Detroit is unbelievable. It's giving the city recognition as a music capital once again."

-Peter Zieler, Economic Development Representative, Detroit Economic Growth Corporation

#1 STATE FOR BUSINESS LOCATIONS/EXPANSIONS

Michigan has attracted more than 10,000 new business investments and expansions over the past seven years, more than any other state in the nation.

(*Site Selection* magazine)

#4 LARGEST HIGH-TECH WORKFORCE IN THE NATION

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MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

#2 STATE FOR BUSINESS CLIMATE FOR 2ND YEAR

For the second year in a row, Michigan has been named the second most-business-friendly state.

(*Site Selection* 2003)

Photography by Travel Michigan (top left), Crystal Mountain (top right), Warji Sirk (middle), Weldy Photo (bottom left), Dave Thompson (bottom right)

MICHIGAN

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Michigan is proud to welcome the 2004 Ryder Cup matches to Oakland Hills Country Club. It's the first in a series of events that have chosen Michigan, including the 2005 Major League Baseball All-Star Game and Super Bowl XL in 2006.

We've also attracted over 10,000 new business development and expansion projects during the past seven years. That's about four new projects for every business day, more than any other state.

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Prozac Nation: Is the Party Over?

There are three stages in the life of a new mental health drug: euphoria, then medical doubts, then lawsuits.

BY RICHARD C. MORAIS

NANCY HUGO, A 57-YEAR-OLD HOUSEWIFE IN CORVALLIS, ORE., HAD recently been prescribed the antidepressant Zoloft by her internist when she found herself in the bathroom, looking at a Bic shaver and wondering if she could get the blade out of its plastic. In the living room she zeroed in on a pair of long scissors she had inherited from her grandmother. "I kept on wanting to pick them up and gouge my eye out," she recalls. Trying to occupy her mind at the computer, she fought the "urge to

Harvard's Joseph Glenmullen figures 75% of all antidepressant patients are "needlessly on these drugs."

slam the phone into the side of my head."

Hugo survived the weekend; her drug doses were reduced and she was switched to antidepressant Paxil. This time, however, she experienced akathisia—a medicine-induced agitation and restlessness that some patients on antidepressants describe as the feeling of bugs crawling through the skin—and an extreme bout of mania. "What spooks me now is that I thought I'd recognize when I was having trouble with the medications," she says. "But it was a week later before I realized, 'Oh, my God, what have I done?'"

Both Zoloft and Paxil are Prozac-type drugs known as SSRIs, or selective serotonin reuptake inhibitors. Do such drugs cause mania and violent obsessions? That question is now being debated in many a doctor's office, court of law and legislature. Whatever the correct scientific answer, the mere fact that the question is being asked represents a new phase in the evolution of SSRI medications and a threat to the well-being of the companies that make the drugs.

Since SSRIs arrived 16 years ago with the introduction of Eli Lilly & Co.'s Prozac, the category has expanded into a collection of blockbusters for Lilly, Pfizer, GlaxoSmithkline and other manufacturers. All told, the antidepressants category accounts for $14 billion a year of wholesale revenues just in the U.S., according to IMS Health. In the first five months of this year American doctors wrote 46 million prescriptions for antidepressants, up 5% over the same period last year, according to NDCHealth. Yes, this is a Prozac nation. Dr. Mark Vanden Bosch, an anesthesiologist at the Berkshire Medical Center in Pittsfield, Mass., who must be alert to drugs that might interact with anesthesia, estimates that a third of the patients checking into his hospital, for a wide range of operations, are on antidepressants.

When Prozac was new, it was heralded (in, for example, the 1993 hit *Listening to Prozac*) as a wonder drug with little in the way of side effects. The few naysayers were for the most part fringe sorts like Scientologists. Now a giant pall of misgiving is descending on SSRIs: Tearful family members are telling their congressmen how the drugs caused their children to commit suicide; Britain has limited their use in children; a suit by New York Attorney General Elio Spitzer claims GlaxoSmithkline suppresse evidence that the drugs don't work in chil dren and can endanger them; and the Foo & Drug Administration is studying whethe it should mandate ominous warning labels

It's a pattern we have seen before i psychiatric drugs, says Harvard Medica School psychiatrist Joseph Glenmullen. A new class of chemicals creates a wave o euphoria in the medical community, whil a handful of celebrities (such as, in the cas of SSRIs, Mike Wallace of *60 Minutes*) swea by the new pills. A decade later reports o side effects accumulate and doctors begi to have second thoughts. Another decad later the world discovers a new miracl drug and the old one is relegated to nich uses. It happened to the major tranquiliz ers (like Thorazine) introduced in th 1950s, and it happened to supposedly les addictive and relatively side-effect-free sub stitutes for morphine. Dr. Glenmuller made this point about the SSRIs five year ago in his book *Prozac Backlash*. He look prescient now.

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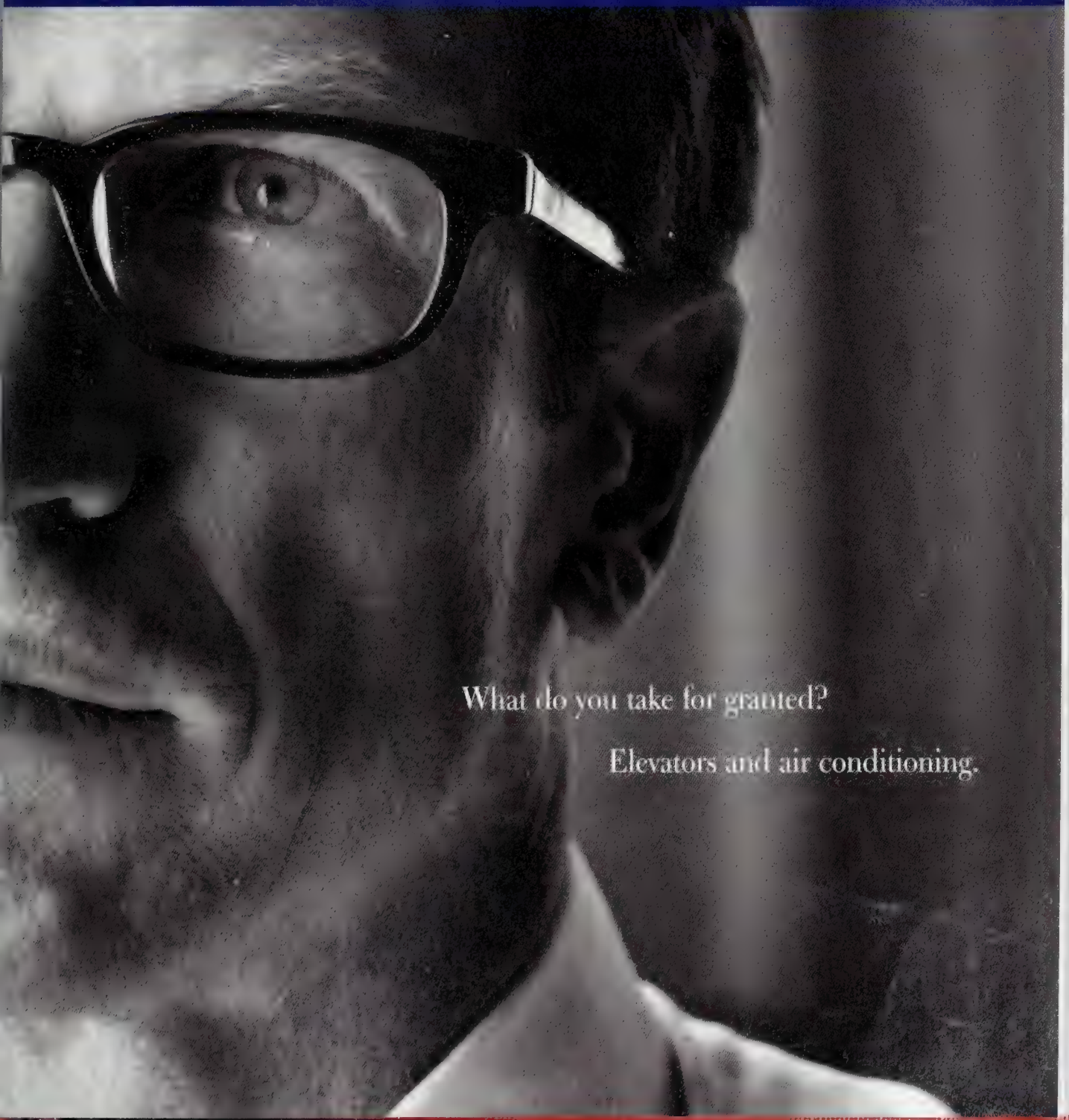


The second-guessing about SSRIs comes just as the earliest patents have expired, or are about to. The combination of potentially dampened prescription volume and new price competition could bring a lot of disappointment to investors in Pfizer and its competitors.

The touchiest issue is whether SSRIs provoke suicides in children. Eric Harris was on Solvay Pharmaceuticals' SSRI, Luvox, when he and Dylan Klebold went on their murder-suicide rampage through Columbine High School in Littleton, Colo. in 1999. Did the powerful drug push him into a dangerous mental zone, like the one Hugo experienced, or was it unable to stop what was already there? It's hard to know. (A Columbine survivor's lawsuit against Solvay was settled out of court, without any admission of liability, and resulted in a token contribution from Solvay to a charity.) The British health authorities have ruled that the side effects of SSRI antidepressants other than Prozac put children at an unacceptable risk of suicide. The National Institute of Mental Health in the U.S., in contrast, says that "some research" points to a drop in suicides among children since the drugs were introduced, "but it is not known if SSRIs are directly responsible."

"The suicides under SSRIs are violent," says Vera Sharav, president of the Alliance for Human Research Protection, a group headquartered in New York City that is crusading for full disclosure of the drugs' side effects. "It's not like someone going into the bathroom and taking pills. It's jumping, knives, hanging. They're in pain. They're jumping out of their skins."

Glenmullen says he himself prescribes SSRIs when appropriate but is dismayed to see patients who have been prescribed antidepressants for every triviality, from nail-biting to boyfriend breakups. It is easy to see where overprescribing could become a habit. General practitioners, internists and family doctors are, at times, penalized by health insurers for making referrals to psychiatrists. These first-line doctors write 73% of all antidepressant scrips in America. Fact: We now spend more on mood-altering drugs for our children, including antidepressants, than we spend on antibiotics.

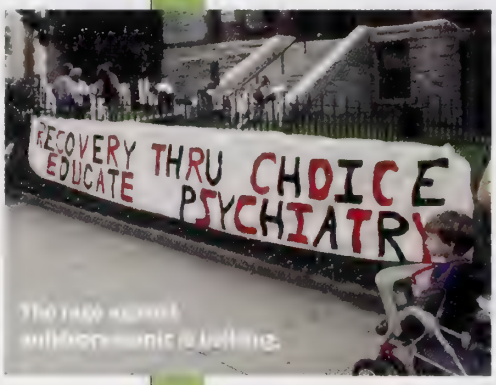
Harried GPs do not always discuss with their patients such possible problems as withdrawal symptoms on discontinuance or the need for ever-increasing doses as the drug's efficacy wears off. In 1997 C.W. Tillman, a county official in Missouri, had an anxiety attack and was prescribed Paxil by his doctor; a few days later his adverse reactions included severe agitation, extreme sensitivity to light and noise, claustrophobia, diarrhea and vomiting. His doctor told him to stop taking the drug, let the symptoms clear up and start again. A month later Ti man had descended into a deep depressi and took an overdose. Tillman—subs quently diagnosed as bipolar and now t Web site editor of NAMI, the Nation Alliance for the Mentally Ill, in Arlingto Va.—is grateful for SSRIs for eventually hel ing him manage his illness, but says docto are undertrained in recognizing side effec

The brain runs on a cocktail of fee good chemical transmitters, among the adrenaline, serotonin and dopamine. Bas cally, serotonin flows across a synap briefly, from one nerve cell to another, aft which the cell that sent it out mops up t

Backlash

Wilton Hall was a 23-year-old up-and-comer at an environmental organization in San Francisco in 1989, but had a tendency toward depression, so he went to a clinic advertised in a newspaper. Referred to a doctor, Hall was handed free samples of a new wonder drug called Prozac.

At first Hall thought Prozac was "everything coffee ever promised to be," and he began producing prodigious amounts of work. But weeks later his feel-good buzz had spun into a full-blown mania. A few years later, diagnosed as having a form of schizophrenia, he wound up institutionalized and was given what he calls a "temporary chemical lobotomy."



Today Hall works in a bookstore in Northampton, Mass. and runs the Freedom Center, a self-help group for mentally ill patients that meets every week. He does not take pharmaceuticals anymore—which he claims only exacerbated his illness—but relies on homeopathy, yoga, nutrition and a support network of similar sufferers to keep him from spinning into the abyss. "I do the best I can," he says.

The Freedom Center is one of a collection of grassroots organizations springing up across the country in reaction to the prevalence of medication in America. It alerts people to the downside of psychiatric drugs but does not try to force people off them; it seeks instead to help sufferers find the best methods of coping, even if their solution is unconventional by the standards of the medical establishment. Similar advocates: the Alliance for Human Research Protection and MindFreedom. The next book by Harvard's Dr. Joseph Glenmullen, due later this year from Simon & Schuster, is a guide to safely tapering off SSRIs without triggering severe withdrawal.

Caution: There are huge numbers of sufferers who really need SSRIs. "Antidepressants provide significant amount of relief for a great number of people," says Thayer Greene, an analyst in Amherst, Mass. "We have to be respectful of what they do, while also raising questions. The reasons underground drug pushers and the pharmaceutical industry make so much money is that so many Americans yearn for release from the nitty-gritty of life. 'Salvation by the pill' does not deliver what it promises. It also takes hard psychological work." —*R.C.M*

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excess. SSRIs work by blocking the sending cell's ability to reabsorb the excess serotonin. Result: The receptors in the second cell get a prolonged bath of the feel-good juice. The miracle in this class of drug is that SSRIs are better tolerated than earlier antidepressants and less likely to be fatal in an overdose.

Now the downside: The brain adjusts to the artificial increase in serotonin with a compensatory drop in dopamine. No one knows the long-term effect of this drop in dopamine in the brain. "The gaping loophole in our drug safety system," says Glenmullen, "is long-term safety. It takes decades for enough consumers to have had ill effects for problems to come to the authorities' attention." Pfizer, the manufacturer of Zoloft, says it carefully monitors safety after drugs are approved and shares that information with the FDA.

Doctors and patients have for some time been reporting mild tics and jerks in SSRI users. The tics are usually overlooked, but can develop into tardive dyskinesia (manifested by a freakish "involuntary tongue" that darts out of the mouth, twitching or "running" legs, jerking or wildly swinging arms and gagging). Do patients know they may be in for this? Knowing, they might, of course, still opt for medication. "A little discomfort is a small [price] to pay for a normal level of happiness!" writes Archibald Hart in *Unmasking Male Depression*.

Thorazine, it turns out, creates similar side effects, but it was a while before doctors were aware of how frequently. Prescribed for everything from insomnia to anxiety, this type of tranquilizer was taken by an estimated 250 million worldwide. In 1973, at the 20-year mark, 2,000 cases of tics had been reported. Critics surfaced and were dismissed as alarmists. But by 1980 systematic studies using neurological screening tests discovered that 40% of all patients treated with the Thorazine class of tranquilizers had tics. Reclassified as antipsychotics, the Thorazine-style drugs were given a long list of FDA warnings and are used today only for severe mental illness.

SSRI patients are also reporting memory loss. It's mostly anecdotal evidence at this point. But Harvard's Glenmullen says the reports of memory loss, tics and jerking side effects found in SSRI patients suggests to him the possibility of long-term brain damage. Is there a risk that, a decade hence, we will see an epidemic of Alzheimer's- or Parkinson's-like diseases? The regulators haven't given enough thought to the possibility, he says.

Whatever the true hazards in SSRIs, there is no doubt that tort lawyers can make hay out of the situation. No overall litigation and settlement data are available on antidepressants (opponents claim pharma is settling cases quietly and sealing the records), and there are just the early signs of clustering activity—trial lawyers advertising for SSRI "victims," seminars and other legal teamwork—familiar to mass torts, but watch events gather pace.

About to Crash?

America's top-selling antidepressants could soon experience a downturn. Now off-patent, Prozac is no longer a bestseller.

TOP FIVE ANTIDEPRESSANTS

Drug	Manufacturer	2003 sales[1] ($bil)
Zoloft	Pfizer	$2.9
Effexor XR	Wyeth	2.1
Wellbutrin SR	GlaxoSmithkline	1.8
Paxil	GlaxoSmithkline	1.5
Celexa	Forest Laboratories	1.4

[1]Wholesale prices of drugs, not including mail service. *Source: IMS Health.*

"We went through a whole period of overprescribing SSRIs," says Jeffrey Kodroff, a Philadelphia lawyer suing Pfizer over Neurontin, an epilepsy drug. "When the market started getting to the point of saturation, the market started emphasizing juvenile use, also for the purpose of getting patent extensions. If the studies show they are not only not efficacious, but cause problems, you're going to see a big backlash in usage of SSRIs."

The New York Attorney General's suit against GlaxoSmithkline, filed in June, alleges that Glaxo committed fraud by suppressing or selectively quoting from clinical studies that showed Paxil to be no better, or even worse, than a dummy pill in treating children with depression. Spitzer has also requested documents from Forest Laboratories, maker of SSRIs Celexa and Lexapro. Glaxo says Spitzer's allegations are bunk; it never targeted kids.

To see what a successful Spitzer prosecution could provoke, look at what recen happened to Pfizer. Warner-Lamber Neurontin was FDA approved for epilep but the company, it was alleged, w encouraging doctors to prescribe it for "o label" uses like bipolar disorders. A whistl blower triggered federal and state crimin investigations into the marketing, and th May Pfizer (which had subsequent acquired Warner-Lambert) settled with th government, taking a $427 million pret hit in criminal and civil fines.

Four days after the settlement th Teamsters Health & Welfare Fund Philadelphia & Vicinity, joined by Aetn and the Alaska State Emplo ees Association health benefi trust, filed class actions again Pfizer alleging, among oth things, that Warner-Lambe suppressed a Harvard Bipol Research Program study finc ing that "patients did wors on Neurontin than those wh were on a sugar pill." Tw years after the study was sup pressed, the Teamsters su alleges, "Neurontin accounte for $1.3 billion in sales, wit over 80% of its use comin from nonapproved uses, such as treatmen of bipolar disorder." Pfizer says it wi "vigorously defend" itself against any suit following its Neurontin settlement, and say "it is worth noting that those investigation did not result in a charge of fraud b Warner-Lambert."

A user of SSRIs for almost a decade who says she can't wean herself off th drugs and spoke to us on the condition c anonymity, recently wrote her former Par Avenue psychiatrist: "I simply pray Glax follows the path of [Dow] Corning, wh endangered women's lives with silicon implants they knew were dangerous Bankruptcy."

Even if Pfizer, Glaxo and Lilly are righ about the science, they could be on th wrong end of a tort suit. Look at the breas implant cases. Scientific studies showe that there was no connection betwee silicone and the autoimmune disease supposedly caused by it. But still th implant manufacturers had to spen billions of dollars to settle lawsuits.

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Sensei's World

Soka Gakkai, a strikingly wealthy Japanese sect, tries again for U.S. glory with a splendid new campus. Daisaku Ikeda's unaccountable empire can thank lax treatment of the nonprofit world | BY BENJAMIN FULFORD AND DAVID WHELAN

WALK THE HILLY campus of Soka University of America in Aliso Viejo, Calif. and you enter the fabulous world of the international nonprofit. The three-year-old school has so far put about $300 million into its 103 suburban Orange County acres, and this is still a work in progress. As of this fall, only 400 students will meander among the rich, Romanesque architecture.

The primary benefactor of Soka U is a controversial offshoot of Japanese Buddhism called Soka Gakkai, headed for 44 years by the sometimes messianic and persistently self-aggrandizing Daisaku Ikeda. But significant secondary support comes from favorable tax treatment in Japan, the U.S. and around the globe, just as enjoyed by other philanthropies big and small. In the U.S. the nonprofit sector is spending $875 billion a year and employs 9% of the work force yet has precious little accountability, other than the public financial statements required of most charities. Religious entities don't even have that degree of accountability. They enjoy all the benefits of tax exemption without any requirement that they say what they are up to.

Soka Gakkai is a shadowy case in point. Ikeda, now 76 and president of Soka Gakkai International, the sect's global umbrella, claims 12 million followers and has amassed an empire that was put at $100 billion by a Japanese parliamentarian a decade ago. (The sect says that's wrong but otherwise won't comment on its finances.) A nasty split from Nichiren Buddhists set off a cycle of alleged violence, blackmail and intimidation. Soka Gakkai members in Japan have been charged with illegal wiretapping and breaking into private databases. The sect says it has nothing to do with those activities, noting that its ranks include nearly 10% of all Japanese. But yet-darker allegations have been made *(see box, p. 130)*.

Soka Gakkai (literally, "value-creating society") brings in, conservatively, $1.5 billion a year to the top line, according to our best estimates of its membership, its tithing demands and its com-

Spreading the word: Soka University of America rises over the subdivisions of Aliso Viejo, Calif.

mercial activities. Most of that revenue is collected in Japan, where the sect sells its flock funeral plots, assorted religious paraphernalia and a newspaper (5.5 million subscribers). The group's far-flung international assets include estates in France and the U.K. In gilded Santa Monica, Calif. a Soka-owned office high-rise and auditorium sit across Wilshire Boulevard from each other, near the town's beach. In the nearby hills a Soka affiliate holds the King Gillette Ranch—which was used for footage of "Tara" in the film *Gone with the Wind*. A thousand spiritual centers worldwide include a site worth $6 million near New York City's Union Square.

In wealth and claimed following, Soka Gakkai exceeds more familiar sects such as Hare Krishna, the church of the Reverend Sun Myung Moon and today's hippest (Madonna, etc.) group, members of the Kabbalah Centre. In the U.S. a church can lose its federal tax exemption for getting into politics. Soka managed to get around a similar restriction in Japan, where Ikeda has built up a political party, New Komeito, that helps the long-governing Liberal Democrats hold power.

Soka University of Japan opened in 1971. Soka University of America, first established in 1987 on what is now a graduate campus in Calabasas, Calif., near Malibu, recently obtained preaccreditation for its undergraduate program from an outfit certified by the U.S. Education Department. A parallel process that will cover graduate students also is moving forward.

The preaccreditation means that for the past year American undergrads at Soka U—which reported to the IRS that its assets exceed $740 million—have been eligible to obtain up to $23,000 in federal Stafford loans over the course of their education. Needy recipients can get up to an additional $4,000 a year in Pell Grants.

What are Ikeda's aims? Five years after gaining command of Soka Gakkai, he told a Japanese writer: "I am the king of Japan; I am its president; I am the master of its spiritual life; I am the supreme power who entirely directs its intellectual culture." In the years since, "world peace" has been the sect's mantra. New Komeito promotes pacifism in Japan. Representatives of the sect have worked the UN and other official venues touting international harmony and goodwill—and usually Ikeda. Followers mount a traveling show equating him with Martin Luther King Jr. and Mahatma Gandhi.

In the sect's 1,000 meeting halls Soka members exercise the "life-enhancing" power of chanting. Believers are encouraged to be "many in body, one in mind." This means "You have to make sensei's [teacher's] heart your own. You have to fulfill [Ikeda's] dreams instead of your own," maintains Lisa Jones, a former aide and follower who ghostwrote an Ikeda book and now maintains a Soka-doubter Web site.

Office of National Drug Control Policy

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"His dream is *kosen-rufu*, or what Soka members call 'world peace,' which will be achieved when one third of the world chants, one third merely celebrates Ikeda, and the other third doesn't care," she says.

A Soka bid for favor in the U.S. a generation ago, drawing on the era's culture clash and some affiliated celebrities, attracted unwelcome press, and the sect receded a bit. But it has never given up efforts to establish legitimacy and further Ikeda's vision. He founded the Boston Research Center for the 21st Century in a 13,000-square-foot Georgian building next to Harvard University. Ikeda has enticed Mikhail Gorbachev and Henry Kissinger into numerous discussions. He also met with historian Arnold Toynbee, double Nobel Prize winner Linus Pauling and civil rights figure Rosa Parks (Soka's U.S. arm boasts a sizable black membership). Some of the conversations with luminaries have been published and sold.

More idealistic or benign than sinister and manipulative? The veil that surrounds the nonprofit world, especially religions, ensures that only the outlines are visible. Soka University files an IRS form; the organization behind it doesn't.

Congress is training its sights anew on nonprofits. Charles Grassley (R–Iowa) chairman of the Senate Finance Committee, held hearings in June on tax-exempt abuses. "Far too many charities have broken the understood covenant between the taxpayers and nonprofits," he said. He

> "His dream, what [goes by] 'world peace,' will be achieved when 1/3 chant, 1/3 merely celebrate Ikeda, and 1/3 don't care."

was angered by local news reports about the looting of family foundations. On Aug. 10 the Internal Revenue Service promised to increase from 230 to 300 the agents it assigns to nonprofit entities. This tiny crew is supposed to take on 1.6 million tax-exempt organizations and an estimated 400,000 additional religious groups that do not have to submit annual tax forms to the IRS. Investigations are typically initiated only in response to complaints. Exceptions to this passive role include the IRS' decades-long losing war with the Church of Scientology.

In the post-Sept. 11 era some Muslim groups have come under scrutiny for ties to terrorism. The Department of Justice recently prosecuted the former head of the American Muslim Council and indicted seven leaders of the Dallas-based Ho Land Foundation. But unless you're tie into terror, you can shout from th rooftops and no one is likely to come lool ing at your books. "Every revenue age you assign to a corporate tax return wi generate millions of dollars. Every [revenu agent] you assign to a tax-exempt one ma not pay his own salary," says Marcu Owens, who headed the IRS' Exempt Or ganizations division from 1990 to 2000 an is now a private Washington attorney.

So the Ikeda-related wealth here i virtually untouchable. In Japan, Soka ha not only its 8,000-student university bu also its enhanced political power. At leas 20% of the Liberal Democrat deputie could have lost without the support o Soka followers last October, enough t give the opposition Democratic Party plurality in the Diet. "It's like becomin addicted to amphetamines," says Katsue Hirasawa, an LDP member of parliament of his party's link with Komeito.

In a July op-ed in the *Asahi* newspa per, Koji Ishimura, a professor of tax law at Hakuho University, argued that Soka' political activities were an abuse of its sta tus as a religion. "The influence of a rul ing party that relies on a specific religion' organization to form its power base i growing stronger," wrote Ishimura, who called for Soka's donations to be taxed.

Ikeda established his fundraising prowess early on. According to University of North Carolina professor James White

Death Watch

Soka University in Japan trains students for government employment exams and touts their success. Might a presence of followers in the civil service be of more than spiritual use to Soka Gakkai? Consider this case from the files of the Tokyo civil courts.

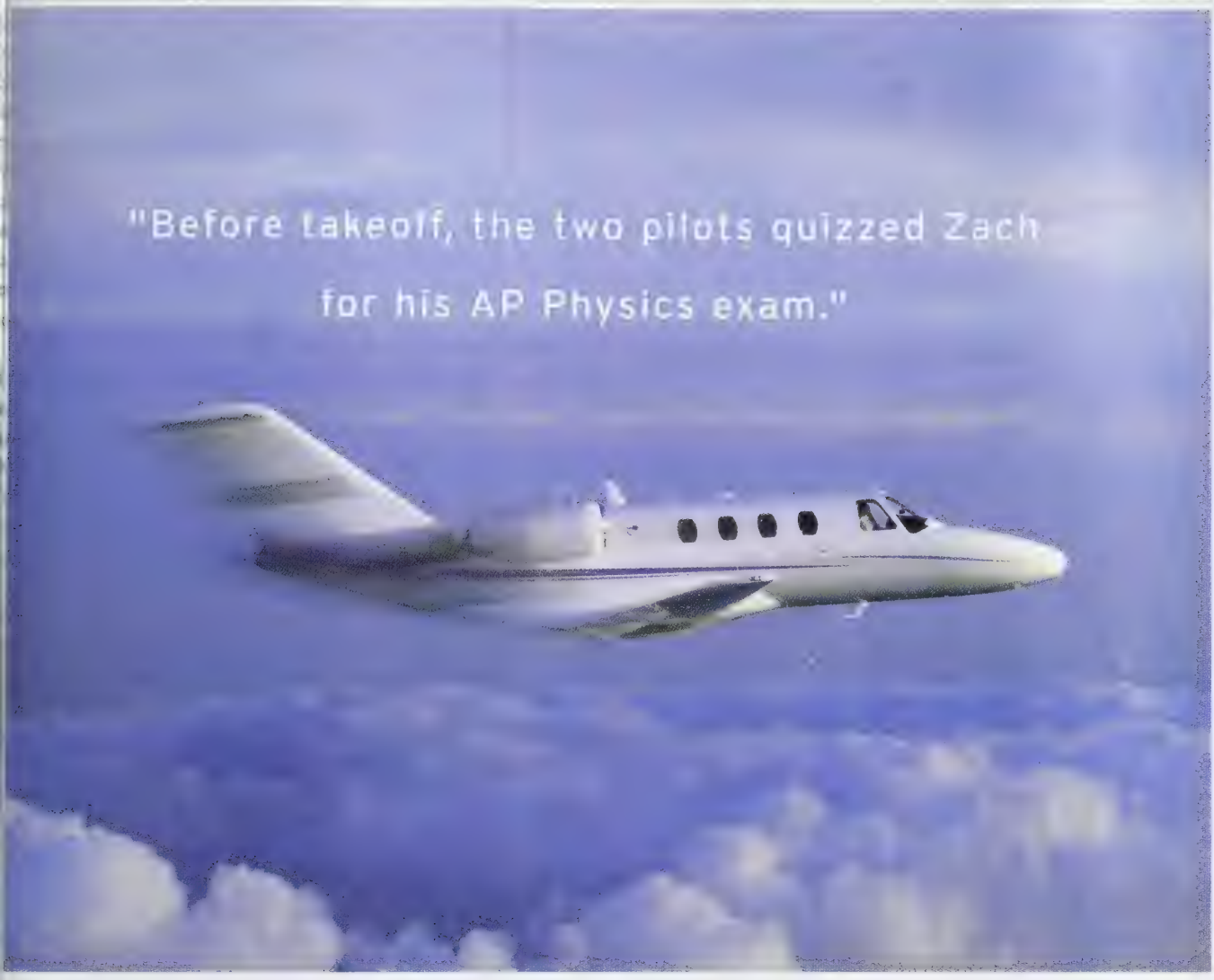
In 1995 Akiyo Asaki, a politician in the Tokyo suburb of Higashi Murayama, complained vociferously that all city garbage collection contracts were going to Soka Gakkai-affiliated companies.

After receiving death threats, Asaki plunged off a building. When police arrived at the scene, they recognized her and, even though she was still alive, kept her from getting medical help, according to her daughter, Naoko Asaki. She says that when her mother died, the police tried to have her body immediately cremated.

The prosecutor's initial investigator, Masao Nobuta, and the officer in charge of assigning him, Fumio Yoshimura, were both members of the sect. They said Asaki's death was a suicide and linked it to her being questioned about the shoplifting of an item of women's clothing.

This explanation, seized on by Soka to counter her family's accusations of murder, became the focal point of a civil court crossfire of defamation cases, several won by Soka. Autopsy evidence, allegedly withheld by police, was presented to show large bruises under her arms, suggesting she had been dragged. Naoko Asaki maintains her mother had left a phone message in a tense, fearful voice before she died. One court ruled inconclusively on a suicide. Soka spokesmen say the religious affiliation of the investigators in the case was a random circumstance and that, in any case, others reviewed their work.

Probes of the death petered out after Soka's Komeito party joined a coalition government in Tokyo. Naoko Asaki is cynical: "Do you think a government that depends on Soka Gakkai is going to investigate?" —B.F.



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who wrote a book about Soka, Ikeda threw a scare into the Japanese insurance industry in the 1960s in a crash four-day drive for a key temple at Mount Fuji. Record sums were raised, with some members cashing in life policies to help.

Soka's initial U.S. academic beachhead in rustic Calabasas met with bustle-wary neighbors. After an extended development fight, the 660 acres today may be home to only half a dozen linguistics students destined for jobs as language instructors for Japanese Soka emissaries.

The action shifted to Aliso Viejo in 2001, with promises of a nonsectarian institution with a first-rate library and renowned secular faculty. The new master-planned community was accommodating. Campus athletic and arts attractions, as well as the library, were open to the public. Popular U.S. author Joe McGinniss was a notable instructor hire.

But reality began to kick in when McGinniss and others complained of interference from on high. Several staff have left—McGinniss' contract wasn't renewed—and one sued. Another filed for arbitration and lost.

Earnest university officials are at pains to showcase an arts-and-letters idyll devoted to the betterment of mankind. Soka U insists it is an independent, nonsectarian school not even as religiously influenced as, say, Brigham Young or Notre Dame universities. But at least a majority of Soka U's trustees have direct Soka Gakkai connections. Today 70% of matriculants are Soka Gakkai members.

Some secular faculty felt squeezed. The university was sued in 2002 by Linda Southwell, a fired fine arts professor. Her complaint disputed a "commitment to rigorous academic endeavor, free and open dialogue, and an appreciation for human diversity" when "in reality the curriculum is intended to reflect cult beliefs and perspectives" and speech and association are limited. She also claimed Soka members were favored faculty.

> "Far too many charities have broken the understood covenant between taxpayers and nonprofits."

Soka University settled the discrimination and wrongful termination in a "satisfactory" manner that included a confidentiality clause, Southwell's lawyer Brian Glicker says. Another professor, who quit her "frightening" job, begs off discussing the specifics of her beef.

Glicker maintains he's heard from several other non-Soka Gakkai International staff members. "Many or most non-SGI staff or faculty are at least considering leaving," says one disaffected professor. "The university was only able to hire 7 or 8 of the 21 faculty it tried to hire." University officials say they'd nc heard this and attribute departures to th growing pains of a new school. The claim an 81% retention rate.

An initial goal of 1,200 student remains a ways off. Has the academic fric tion been a roadblock? The universit says more hiring and building await ful accreditation, which it expects soon. Or campus, the image is of serenity anc strength. The buildings use the sam stone featured in the Colosseum in Rome Ikeda insisted on using it because h intends his university to last 2,000 years, Soka U spokesman explains. The campu also sports a security camera networ rivaling that of any casino.

The university includes a sizabl "guest house" and a larger "athenaeum" overlooking a regional park. The sumptuous residence is set aside for VIPs, such as in the words of one university official "the president of Venezuela or Daisaku Ikeda." It has ornate furniture, a portrait of Ikeda and many artworks, all covered in white cloth until the VIPs show.

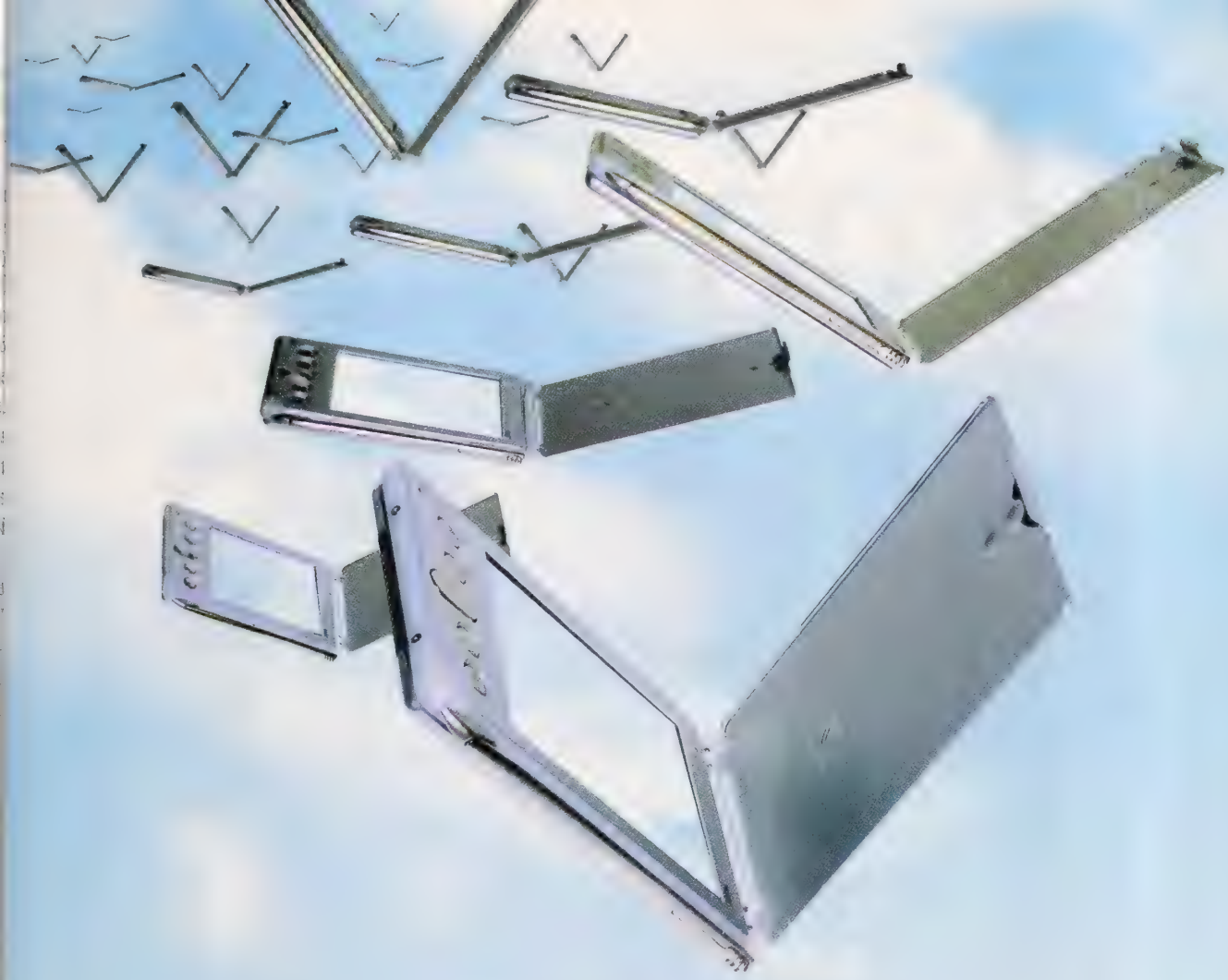
The undergraduate catalog says that "as leaders and decision makers," Soka's graduates "will be guided by the ideal of a contributive life, a humanistic approach drawn from Buddhist thought." But Soka Gakkai newspapers and other publications, filling a prominent shelf in the Soka University library—named for Ikeda—all feature Ikeda's interpretations of Buddhism: To wit, achieve world peace and democracy by becoming one in Soka and chanting. The university notes it also has other Buddhist texts.

Like other students approached at Aliso Viejo, Fabiana Sanchez, 21, a senior and a Soka Gakkai member, says she wants to do something for society or peace. She plans to return to her native Venezuela upon graduation and get involved in some sort of work "linking education and politics."

Soka U denies a rumor that the aging sensei plans a visit soon to his American academic citadel. Succession at the sect's helm is uncertain: Two sons are vice presidents in Soka but the sect denies a hereditary rule. Meanwhile the tax-favored billions continue to roll in, almost entirely outside the purview of authorities anywhere. F

Chant of the Faithful

Prominent believers in Soka Gakkai include Mariane Pearl, the widow of murdered journalist Daniel Pearl, jazz musician Herbie Hancock and Patrick Duffy of *Dallas* TV show fame. Singer Tina Turner was identified with Soka Gakkai in years past, but her spokesman would not confirm an association.



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Broadcast Bullies

In a fair fight, XM Satellite Radio would capture a good share of the U.S. audience. Unfortunately, competition in the broadcast industry is anything but fair. By Scott Woolley

HOVERING 22,000 MILES ABOVE THE EARTH, TWO SATELLITES FOR XM SATELLITE Radio blanket every corner of the continental U.S. with 130 digital channels—everything from heavy metal to the BBC News to children's songs to seven different flavors of country music. XM's chief executive, Hugh Panero, proudly ticks off the new technology's advantages over traditional radio, which dates back 90 years: greater variety, clearer sound, better coverage, lower cost. And no advertising to interrupt the music—none of the blaring and banal spots that fill almost 20 minutes of every hour on radio; freedom from homogenized formats or cookie-cutter playlists.

Yet XM's geriatric competitors dominate the market in listeners, revenue and profits, nine years after the federal government first cleared satellite radio to compete. In fact, in that same period the old guard—Clear Channel, Viacom's Infinity Broadcasting and other AM/FM giants—has enjoyed a boom. Combined AM and FM revenues this year likely will break the $20 billion mark for the first time. Ad rates have doubled in nine years amid deregulation and a resulting merger binge. Despite all that has been done by broadcast TV, cable and now the Internet to make it obsolete, terrestrial radio commands an average of 21 hours a week of adult Americans' time. By contrast, XM has only 2 million subscribers, accounting for only one in 300 radios in the U.S. The company is set to take in $260 million in revenue this year—and still post a loss of $470 million. Its sole rival, Sirius Satellite Radio, is in worse shape, with just a quarter of XM's subscriber base and even shakier finances. Other promising digital technologies—Internet radio, new cell phones—also offer huge advantages over traditional

TIMOTHY REDEL FOR FORBES

XM Satellite's Hugh Panero: "I've watched the hand-wringing and whining and protectionism that goes on."

One of DC's most feared lobbyists: The NAB's Edward Fritts.

radio *(see box, p.140)*, but they too remain bit players.

Digital revolutions have transformed television, recorded music, medicine and more. But radio remains frozen in time, an analog anachronism in a digital world. It drives Hugh Panero crazy. "It's 2004. In what other environment does a consumer listen to music in an analog format? Name me one," demands Panero, a former Time Warner executive who fought TV broadcasters trying to block new cable systems in the 1980s. "You have incumbents who are afraid," he says. "I've watched the hand-wringing and whining and protectionism that goes on."

For decades the radio industry has crushed incipient competitors by wielding raw political muscle and arguments that are at once apocalyptic and apocryphal. Radio station owners, who formed the National Association of Broadcasters in 1923, have won laws and regulations that have banned, crippled or massively delayed every major new competitive technology since the first threat emerged in 1934: FM radio.

In 1945 many AM incumbents, ostensibly concerned that interference related to sunspots might endanger their rivals in FM, encouraged the feds to uproot the FM dial and move it to a higher frequency band. This rendered half a million FM radios useless and forced the nation's FM stations to start over. A congressional investigation in 1948 found that the interference fears were bogus and that a Federal Communications Commission report had been conveniently altered to disguise that fact. Too late—the shift helped inferior AM technology remain dominant for the next 25 years. The coda: In 1954 the inventor of FM radio, Edwin Armstrong, frustrated by repeated setbacks and all but bankrupt, penned a suicide note to his wife and leapt out the window of his 13th-floor apartment.

Fifty years later radio's old guard has been as effective at thwarting the digital threat. Existing stations thrive on an array of perks won by radio operators, including free use of the airwaves (XM and Sirius, by contrast, had to pay almost $200 million combined for their spectrum) and an exclusive exemption from paying royalties to performers. But the NAB's real forte has been in the modes of attack and delay, persuading regulators and Congress to impose daunting restraints on the satellite rivals and stalling their debut for the better part of a decade.

"There is no need for 'more' radio service and no need for more competition."

Meanwhile, earthbound radio is pushing its own digital service, a long-gestating and tepid alternative aimed at neutralizing the satellite threat: "high-definition" radio, first proposed 14 years ago. It does nothing to expand reach or reduce operating costs, but it will add CD-quality sound to the same playlists and station lineups now on the air, for those listeners who buy the new HD radios that debuted in January. A hundred of the nation's 11,000 commercial AM and FM stations now simulcast their programming digitally.

"Over-the-air radio is facing a challenge in the area of technology. HD radio will answer that call," says NAB president Edward Fritts. A former radio station owner himself, Fritts has run the powerful broadcast lobby since 1982. Shouldn't satellite radio be allowed to compete freely for listeners? "I'm not here to protect consumers from the big bad satellite companies," he says innocently. "I'm willing to let consumers make their own choice."

Yet for 15 years his NAB has taken the opposite tack. Digital satellite radio's origins date to 1990, when Satellite CD Radio, forerunner of Sirius and the first of five nascent players, proposed a new 30-channel service and began the poky and convoluted approval process at the FCC. The NAB's initial response was uncharacteristically subdued: It said approving a new service would be "premature."

But in 1992 the FCC startled broadcasters by setting aside

CHRIS KLEPONIS / BLOOMBERG NEWS

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a 50-megahertz swath of radio spectrum for new satellite services—two and a half times the size of the FM and AM bands combined. Four other newcomers applied, including American Mobile Satellite (which would change its name to XM Satellite in 1998 and go public a year later).

The FCC ruling was seen as a dire threat inside the imposing seven-story headquarters of the NAB in downtown Washington. The group already was fretting over new satellite TV service that was bypassing over-the-air stations to reach large backyard dishes in rural areas. DirecTV was plotting a debut, as well. "The NAB viewed satellite TV like it was the Death Star. Clearly they didn't want satellite radio to repeat the same pattern," says a former NAB lobbyist.

In waging a crusade to stop satellite radio, the Fritts forces exhorted the nation's radio station managers to contact their congressmen and tell the "truth about satellite radio."

"They got broadcasters across the country to hammer like hell on the Congress and the FCC," says the ex-NABer. The NAB literature's central talking point was straightforward: "There is no need for 'more' radio service, no need for national radio service and no need for more competition in radio service."

Digital radio promised lower costs, higher quality and more variety. To portray this as a bad thing, the NAB turned the free-market logic of 18th-century economist Adam Smith on its head, stressing the harm satellite radio could do to the listening public.

Satellite's "purported benefits are, in the main, nonexistent, unrealistic or of minimal value," the group assured the FCC in 1995. Left free to compete, the NAB added, satellite radio would offer inferior programming and shove better-quality AM and FM service off the air. Thus competition would leave consumers worse off, the NAB said in an Orwellian conclusion: "Adding a new service would likely decrease the overall service to the public."

"Economists just don't take a lot of those arguments seriously," says Stuart Benjamin, a Duke University professor who studies broadcast regulation. "To be blunt, the NAB has power that is not commensurate with the persuasiveness of its arguments." The power comes in part from connections. Ed Fritts went to the University of Mississippi with former Senate Majority Leader Trent Lott, and they remain close; the NAB's general counsel, deputy counsel and regulatory director who led the antisatellite effort are FCC veterans. Far more power, however, comes from the fact that the NAB represents owners of just about every large and small broadcast outlet in the country—and you can't get elected if you can't get on the air.

"There are no threats," says Senator John McCain (R-Ariz.). "There's no coercion. It's just the people who represent the best way of getting your image and message across to the people in your state." This reality, he says, is why NAB is "one of the most powerful lobbying groups in Washington—and one of the most arrogant."

In 1995 lawmakers slapped down digital newcomers by passing a law backed by the NAB and the Recording Industry

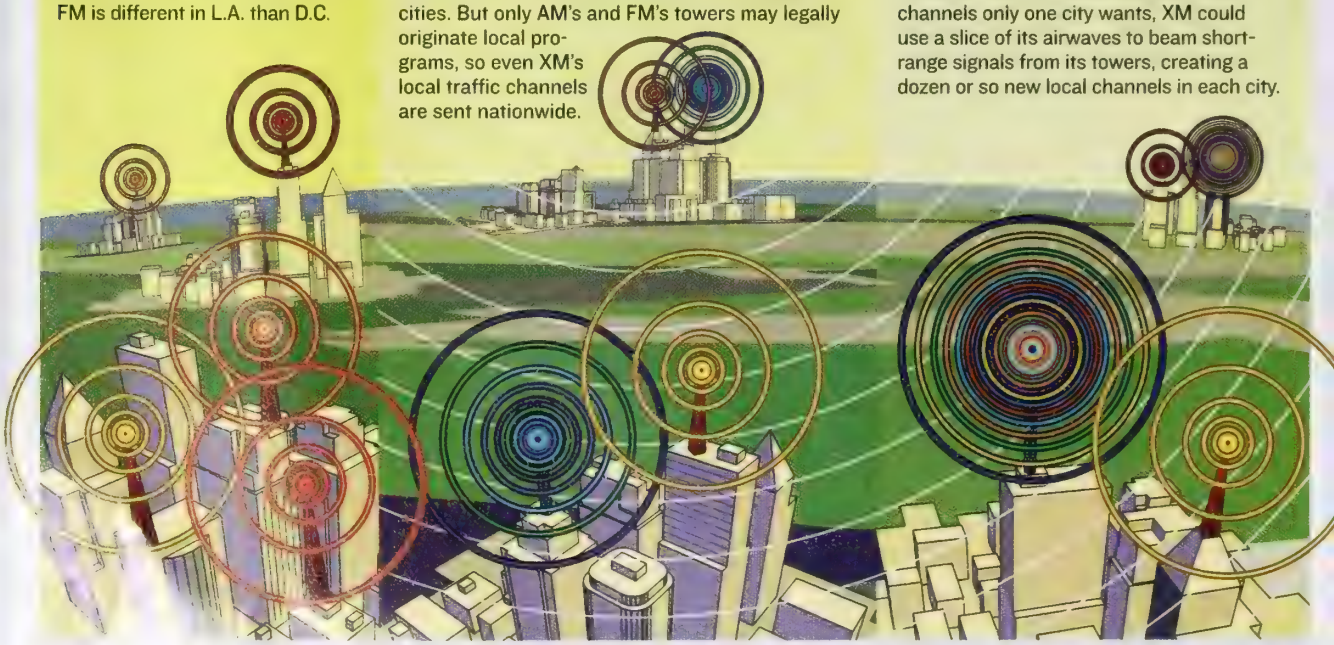
Radio Rules

XM Satellite radio has many advantages over AM and FM. Unregulated, it would have far more.

ANALOG RADIO. AM and FM signals cover limited areas, so 91.1 FM is different in L.A. than D.C.

DIGITAL TODAY. XM Satellite's 130 channels blanket the U.S.; towers boost those channels in cities. But only AM's and FM's towers may legally originate local programs, so even XM's local traffic channels are sent nationwide.

DIGITAL AS IT MIGHT BE. Instead of filling the entire nation's airwaves with channels only one city wants, XM could use a slice of its airwaves to beam short-range signals from its towers, creating a dozen or so new local channels in each city.



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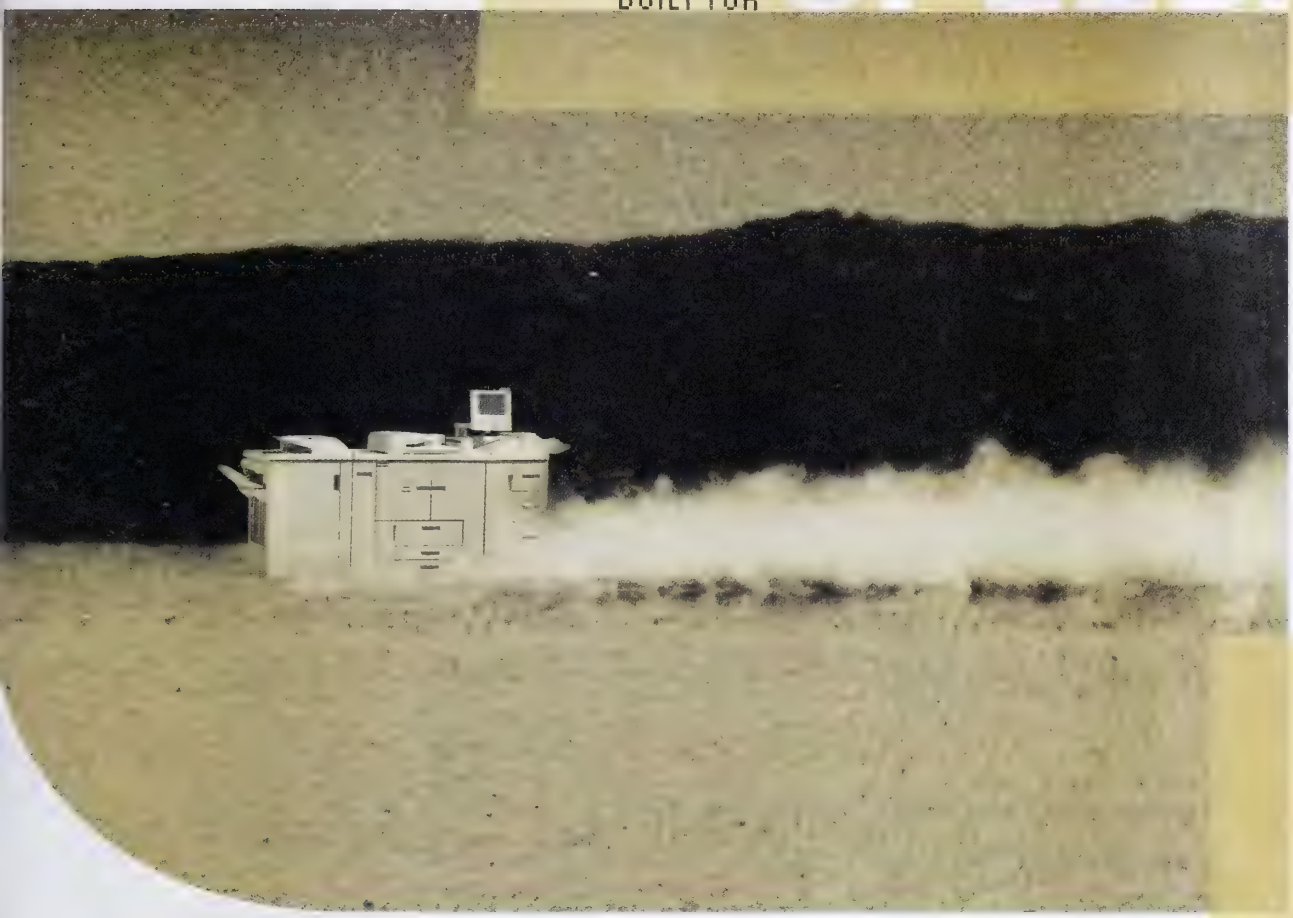

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Association of America. Traditional radio has never had to pay royalties to performers, on the rationale that the airplay helps those same performers sell records. The Digital Performance Right in Sound Recordings Act of 1995 maintained that exemption but barred almost every form of digital radio from getting the same break. The sole type of digital broadcast that Congress kept royalty free: the NAB's baby, HD radio.

The law helped put some fledgling Internet radio stations out of business. For XM Satellite, it meant having to pay almost $20 million in royalties in two years—17% of its total revenue during that time.

By the time the FCC approved the entry of XM and Sirius in 1995, victory was illusory. Regulators burdened them with an array of restraints that strengthened old radio's grip on advertisers and viewers. The FCC's license forbade free, advertising-supported satellite stations, instead requiring firms to sign up paying subscribers. It reduced the number of players from four to two and cut the number of channels the satellite industry could carry in half by shrinking its airspace from 50 to 25 megahertz.

Worst of all the FCC rules made it illegal for the new satellite services to broadcast locally—sports reports on the Lakers in Los Angeles; traffic updates on the Massachusetts Turnpike in Boston. The terrestrial radio operators argued that local programming was the purview of local stations that would be hurt by competition from a national satellite company ignorant of local tastes. Never mind that the radio titans were knitting together nationwide networks to let hundreds of their own stations carry identical programming. The satellite rivals again gave in and assured the FCC they had no local ambitions—a claim that would prove to be dubious.

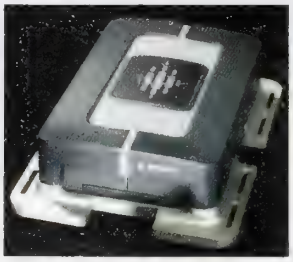
The FCC restrictions might otherwise have sunk the young industry, but XM and Sirius raised cash in the bubbly late-1990s. Panero joined XM in 1998 and quickly set about raising money to buy satellites and launch the service. In 1999 he borrowed $250 million and raised $114 million more in a public offering. XM launched first, going live with 100 channels in September 2001 and charging $10 a month. Sirius launched its $13-a-month, 100-channel service ten months later. A dozen years had passed since its first filing with the FCC.

Panero knew joining the fledgling industry would be a big gamble, but the cable veteran had a natural faith in the idea. "People were saying no one would pay for radio," he says. "But I had grown up in cable, and had heard the exact same things about television."

XM and Sirius had to finance programming lineups for 100 channels, pay for their satellites and fund the royalties—all before they had any subscribers to speak of. As the stock market crashed,

Radio Revolution

AM and FM radio face a plethora of digital threats.



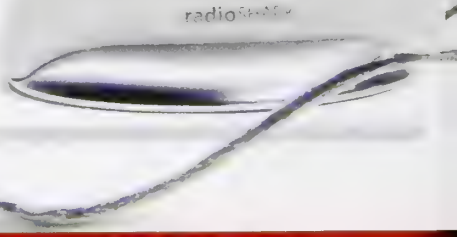
DMP2 Pull into your garage and this gadget links up to your wireless home Wi-Fi network. It then downloads the latest additions from your MP3 music collection into your car.

SUPER CELL PHONES Two of radio's classic selling points are local traffic reports and sports. New cell phones download just the traffic info you need, conveniently overlaid onto GPS-linked maps. They can also tune in baseball games.

PRISMIQ Sitting on top of your home stereo, new "media adapters" can wirelessly tap your PC's MP3 library—or open entirely new musical horizons by tapping thousands of Internet radio stations.

APPLE AIRPORT EXPRESS WITH AIRTUNES Like the Prismiq, Apple's latest gadget is aimed at bringing Internet radio (and MP3 collections) to your home stereo. This gadget takes up less space and makes installation a snap.

RADIOSHARK "TiVo for radio." This gadget records AM/FM radio and converts it to an MP3 file. Download Howard Stern onto your iPod and listen at your whim—and you can fast-forward past all those ads.



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capital dried up. Just months after its service launched, Sirius warned shareholders that bankruptcy was certain without an injection of cash. Eventually private equity funds agreed to put up $1.2 billion, but only after forcing bondholders to take a 20% haircut and virtually wiping out the common stockholders, who were left with 8% of the recapitalized company. The cash situation also grew critical at XM, which was forced to lay off 80 of its 480 employees and raise $210 million, most of it debt convertible into shares at $3, 75% below the price at its initial public offering. A group of AM and FM radio stations began broadcasting attack ads gleefully warning consumers that if the satellite companies go bankrupt, "there are gonna be a lot of folks out there sitting on some expensive equipment they bought."

Today Panero points to rapidly growing subscriber rolls and vows the cash drain will be staunched by next year, with profits soon to follow. Both XM and Sirius have doubled their subscriber counts in the past year, albeit from very low bases (of 1 million and 250,000, respectively). General Motors, one of XM's early backers, now offers XM in its new cars, which has proven a key distribution channel. Satellite has also picked up notable talent. XM just landed NPR veteran Bob Edwards. Sirius has an exclusive deal for NFL football games. XM's stock has rebounded to $26 from a low of $1.75 in 2002 (though it still is 48% below its peak price four years ago). Sirius shares hit a low of 41 cents last March but are back to $2.

In January Panero riled radio yet again, this time by offering local radio content in an effort to accelerate his growth even further. Despite assuring the FCC in 1995 that it would be a national radio service, XM began offering local traffic and weather channels tailored to 20 different markets. It did so by exploiting a loophole. XM and Sirius systems require a network of ground-based antennas in cities with tall buildings to boost satellite signals that otherwise would have trouble seeping in. At the NAB's behest the FCC forbade XM to use those transmitters to originate and broadcast local content.

It never occurred to the NAB lobbyists that XM engineers would figure out a way to squeeze local traffic and weather channels into supersmall streams and simply send 20 new localized feeds via satellite to the entire country. Panero readily admits that flooding the entire nation with a traffic channel that's of interest only to drivers in a single city is a grossly inefficient use of XM's capacity. The FCC rules leave him no choice, he says. Sirius Satellite has launched a similar service.

Even this little bit of cleverness could get tossed out by the NAB's friends in Washington. The FCC is now considering an NAB petition that could result in a ban on the local programming. In Congress, meanwhile, the NAB is plying another argument for halting XM's local push: The traffic and weather channels put national security at risk. The NAB says that by undermining the viability of local radio stations, listeners could lose access to regular radio's emergency broadcasts in a disaster. It worked for the NAB's many fans in Congress. In March a bipartisan group, led by Republican Charles Pickering of Mississippi and Democrat Gene Green of Texas, introduced the Local Emergency Radio Service Preservation Act. It would ban all "locally differentiated" satellite programming outright. The bill, with 43 eager cosponsors, is pending before the House Committee on Energy & Commerce.

If you can't compete, get a bill to outlaw the competition. The NAB may yet win this battle. F

Crushing the Little Guys

In 1999 a wave of novice broadcasters tried to start several thousand new "low-power" FM radio stations, fledgling outfits that would fill gaps in the FM radio band. One group sought a license to air Baptist homilies in Connecticut, another for jazz in Oklahoma, another for Vietnamese talk shows in Minnesota.

Enter the National Association of Broadcasters. Radio lobbyists descended on the Federal Communications Commission, first persuading it to scale back the sweeping plans for new FM radio stations and then turning to Congress for still more relief. The NAB argued that even dinky nonprofits broadcasting at 100 watts or less would drown out existing FM radio stations. Allowing even the neutered FCC plan to proceed would "threaten to disintegrate the U.S. radio environment into chaos," the group said.

Congress, professing great concern at the alleged "chaos," leapt to the NAB's defense. It passed the Radio Broadcasting Preservation Act of 2000, gutting the plan the FCC had already scaled back and calling for years of further study.

In February a congressionally commissioned FCC report came out, debunking the notion that chaos loomed and saying the risk of interference from low-power signals is trivial. As for Congress' plans to study the matter further: Don't bother, the report advised. It called any other inquiries a waste of money. "It was just an exercise in raw political power on the part of the National Association of Broadcasters to squeeze out people who have little or no voice here in Congress," says Senator John McCain (R-Ariz.). "It's no more complicated than that."

In June McCain and Senator Patrick Leahy, the Vermont Democrat, introduced a bill to overturn the Radio Broadcasting Preservation Act and let more stations on the air. The NAB is violently opposed and has backed an amendment by Senator Conrad Burns, a Republican representing Montana, to spend $800,000 doing just what the last study recommended against: more studies.

Senator McCain assesses the chances that Congress will ever buck the broadcasters and let in more radio competitors this way: "Dim. Extremely dim." —*S.W.*

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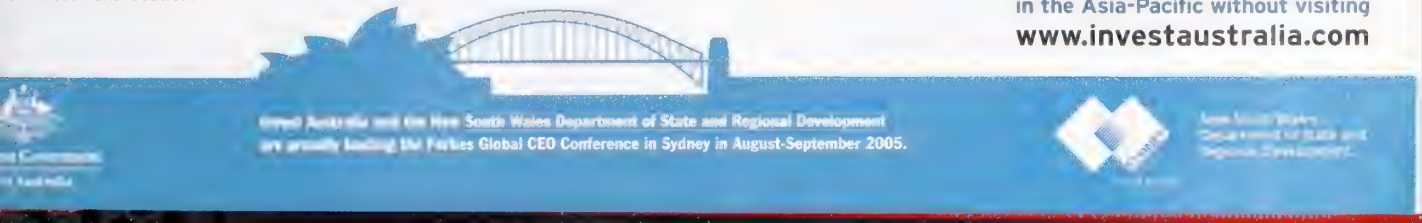
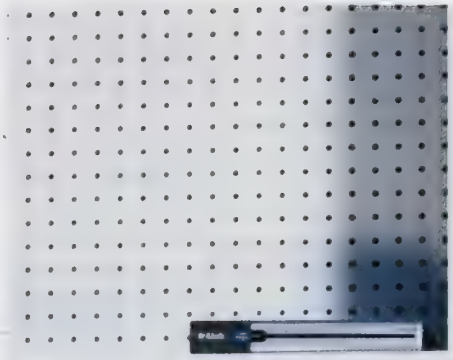


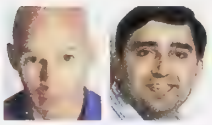
My Internet.com



The digital world is about to get personal—very personal. In this sixth annual profile of tech trendsetters, we spotlight six in pursuit of the next big idea: using Internet technology to genuinely connect people and things, and deliver precisely what we want, when and where we want it. In the aftermath of the dot-kaboom, they deepen our understanding of the Net's ability to change how we work and play. At times it seems like the richest turf in high tech is taken, but the Net's openness and versatility offer great opportunity to anyone with a way to tap its digital geysers—and create a richer life for the rest of us.

2004 E-GANG

BY ELIZABETH CORCORAN



Online Gaming

Broadband Wireless

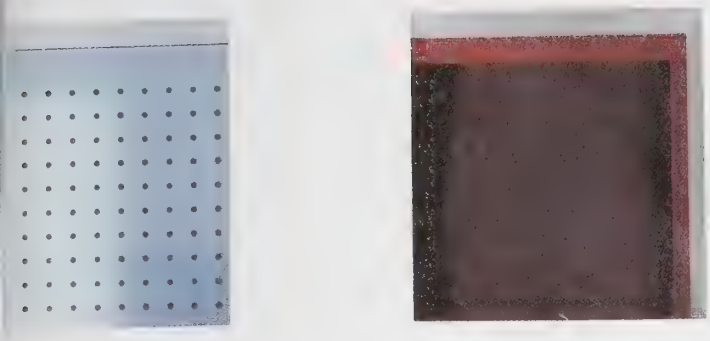
Voice over the Internet

Mobile TV

Embedded Networks

Thoughtful Gadgets

PHOTOGRAPHS BY DANIELA STALLINGER FOR FORBES



VOICE OVER THE INTERNET

Cathy Martine
AT&T, Morristown, N.J.

Talk to Me

ILLUSTRATIONS BY HARRY CAMPBELL FOR FORBES

THE FORMER MA BELL HAS HAD A BRUISING YEAR. AT&T has lost almost a third of its market value, gotten booted out of the Dow Jones industrial average after a 65-year run and retreated from the business of providing consumers with plain old telephone service. Luckily, 18 months ago a 24-year AT&T veteran named Cathy Martine began pushing the company into something new: VoIP (Voice over Internet Protocol), zipping phone calls over the Internet.

In March 2003 Martine was set to propose a VoIP test to AT&T brass, but she got bumped at the last minute. So Martine sidestepped AT&T protocol and zapped her plan directly to AT&T Chairman David Dorman by e-mail. He okayed it in hours. Now Net phone service is a big priority at AT&T.

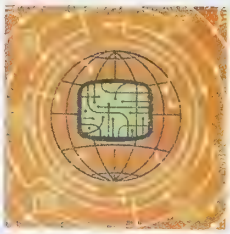
VoIP turns your analog voice into digital bits, using an existing DSL or cable modem to zip it across the Internet (or, in AT&T's case, its private data network). Once digital, telephone service changes radically. You can adopt any area code you want, no matter where you are based. Callers can ring your home, mobile and office phones all at once, and unwanted callers can be selectively turned away. You can even download voice mail messages from a laptop in Singapore.

Small outfits such as Vonage (with 215,000 customers) and Net2Phone (100,000) took early plunges into VoIP, but AT&T could yet outrun them. Martine's service, CallVantage, is slated to be available in 39 states and Washington, D.C. by late August. She wants a million consumers and businesses using CallVantage by the end of 2005 but won't say how many callers have signed up so far.

AT&T researchers had been noodling around with VoIP for a decade, but as recently as 2002 the business side was dubious: Too few households had broadband Internet connections (and only 20% do today). Call quality was unreliable, and the service dies in a power blackout. "The feeling was, 'No one will want to buy this from us,'" Martine says. "I looked at it the opposite way and asked, 'Why not?'"

In five years AT&T had poured an estimated $3 billion into a digital overhaul of its backbone network. Martine argued that by spending a few tens of millions more on marketing and software, AT&T could have a compelling and high-quality service for consumers. Businesses would follow.

Once Martine got Dorman's assent, just four months later her group was rolling out service to the homes of 900 AT&T employees in three states. They loved the service but hated the original name: Consumer Digital Solutions. "They told us not to AT&T-ize it," Martine says. She listened, switched to CallVantage and aims to give customers more Net: games, movies, music, as long as it is digital. Says Martine: "It's the art of the possible." F



ONLINE GAMING

Mike Cassidy
Xfire,
Menlo Park, Calif.

Finding Friends & Foes

TENS OF MILLIONS OF PEOPLE PLAY VIDEOGAMES online; the tricky part is finding your friends—and favorite foes—among them. Michael Cassidy can help. His company, Xfire, runs a Web site that is the *TV Guide*, maître d' and instant messenger of the gaming world. Cassidy's service can point you to a buddy who is ready to play the game you want at any moment of the day or night. He already has a lot of friends to prove it. In eight months a million people in 100 countries have downloaded Xfire's software.

Online gaming typically requires a player to prearrange a time slot with friends, swap Internet addresses and hope the connection works. Or you can log on to a game server and try your luck against total strangers blasting Nazis or aliens, though it's more fun to "frag" a friend. With Xfire, a player can join a friendly session by clicking on a buddy's name.

Cassidy knows the virtues of friendship. He started his first business with two pals and later sold it for $13 million. In 1998 he sold his next venture, an 18-month-old search company, to Ask Jeeves for shares then worth $500 million. He put his share into T bills, practiced jazz piano and traveled in China. After 9/11 Cassidy took on a large database-analysis job involving an unnamed U.S. agency. "Let's just call it 'a global community service project.' I can't say any more," he says.

Then a longtime friend, Max Woon, urged him to look at online games. By 2006, 40 million people in the U.S. will be playing online games, says Jupiter Research. "It was one of these, 'Well, if we could just make $1 a month off 10% of the market, we'd be rolling in money,'" Cassidy says. In turn, a friend of Woon's—Jonathan Abrams, cofounder of Friendster, the trendy social networking site—put Cassidy in touch with Thresh, a.k.a. Dennis Fong, world champion of Quake and several other titles.

2004 E-GANG

Cassidy, Woon, Fong and a fourth friend started Ultimate Arena, a Web site hosting online tournaments. For a $3 fee a player got into a 1,000-person game with a grand prize of, say, $1,000. Over six months last summer, half a million players used Ultimate Arena to play the new Counterstrike game. But a high dropout rate soured any chance of profits; customers preferred to play with their pals. So in January Cassidy morphed Ultimate Arena into Xfire. Suddenly the dropout rate fell 90%. With 20 employees and $5 million in venture funding, Xfire has begun reaping ad dollars and license fees for company-tailored versions and eventually will get commissions on game sales. "We're using people's friends and peer pressure" to woo new players, Cassidy says. Wanna join in? F

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Shifting Places

SITTING IN A STARBUCKS IN SAN MATEO, CALIF., BLAKE KRIKORIAN performs an Internet magic trick. He fires up an iPAQ handheld and, with a few clicks on a menu, pulls up live television. The screen is small, but the Fox channel's *Judge Hatchett* is smooth; no delays, no frozen frames. Krikorian switches to his laptop, and moments later Clifford the Big Red Dog is nosing around at a birthday party, courtesy of PBS. He then apologizes: He could download TV to his cell phone if only there were higher-speed service. "It's coming," he promises.

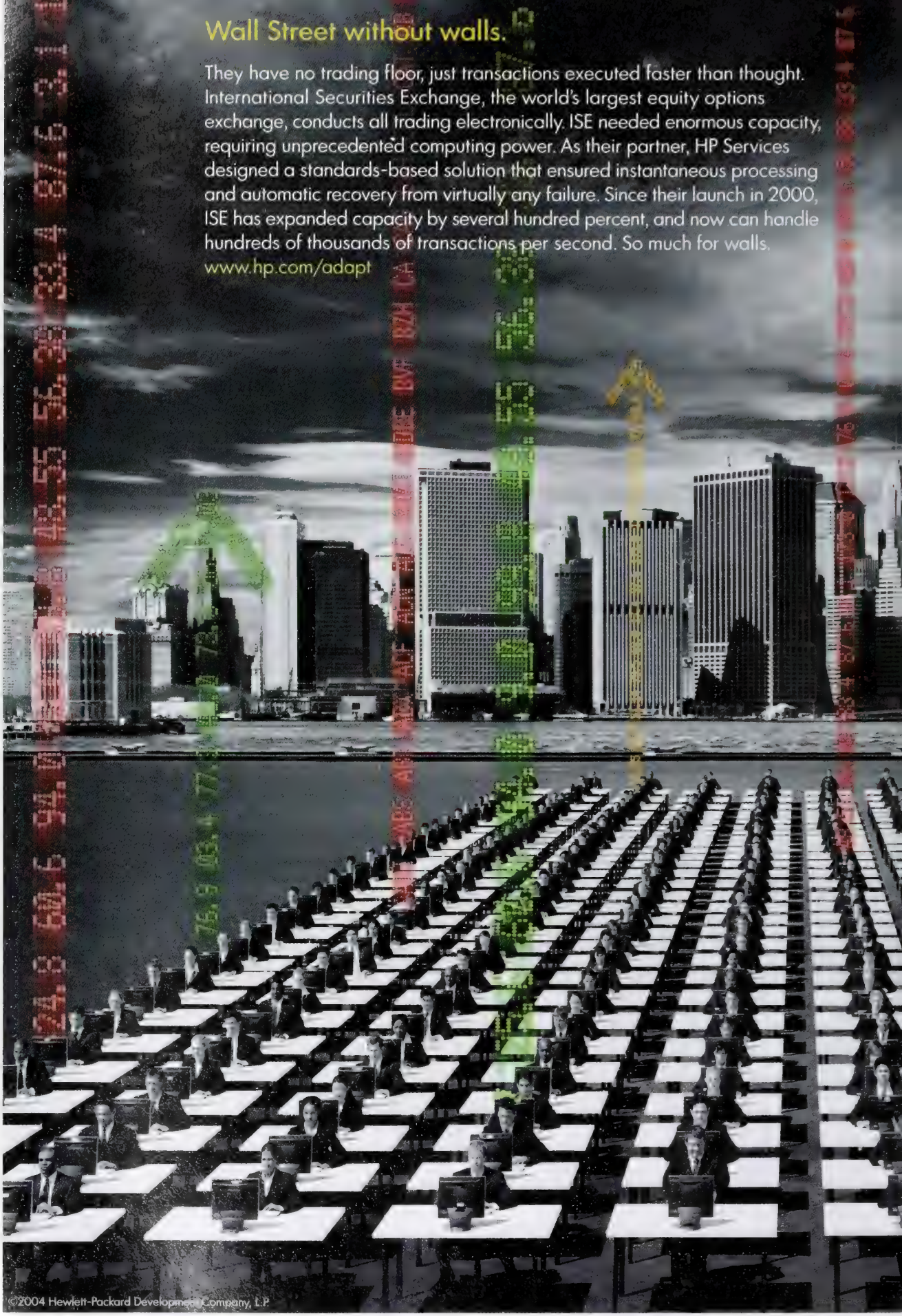
MOBILE TV
Blake Krikorian
Sling Media,
San Mateo, Calif.

Krikorian's little company, Sling Media, is about to launch the SlingBox Personal Broadcaster, an amazing little box that can redirect any video—such as a cable or broadcast feed—from your home to any screen you carry, as long as it has a wireless Internet connection. "I'm already paying for my cable at home," Krikorian says. "Why can't I watch it somewhere else?"

His frustration on this point peaked in the summer of 2002 while his beloved hometown San Francisco Giants were in a pennant race that he couldn't catch live when he was out of town. Krikorian began writing software at home that would let him watch from afar. "The VCR lets you 'time shift,' " taping now to watch later. "I wanted to 'place shift.' "

He always liked to fiddle with technology. He started his career as a mechanical engineer at McDonnell Douglas, then ricocheted to Silicon Valley highflier General Magic and to Philips Electronics, where he helped build its first handheld computer. After a year of tinkering Krikorian came up with a working version of the SlingBox. A small hardware appliance plugs into a TiVo, cable box, satellite receiver or stereo and converts the analog stream into digital bits. At its heart is software that detects the size of the handheld screen and the speed of the Internet link, then compresses the broadcast into suitably sized digital chunks. "It works like a long-distance remote control," he says. The firm plans to have SlingBoxes on store shelves by the end of this year at $199 apiece.

He and his younger brother, Jason, have put almost $1 million of their own money into the venture. They are set to close their first round of venture money this month. Krikorian has demonstrated the SlingBox to most major cable operators, wowing them all, he says. But to soothe their unease about a product that steers their signals elsewhere, the SlingBox will transmit only a single stream of content outside the home. "We believe this falls under the 'fair use' provisions of copyright law," Krikorian says. "I love Sling Media," says Gary Shapiro, president of the Consumer Electronics Association. If the outfit avoids a copyright fight, he adds, the SlingBox "could be as liberating as the VCR." F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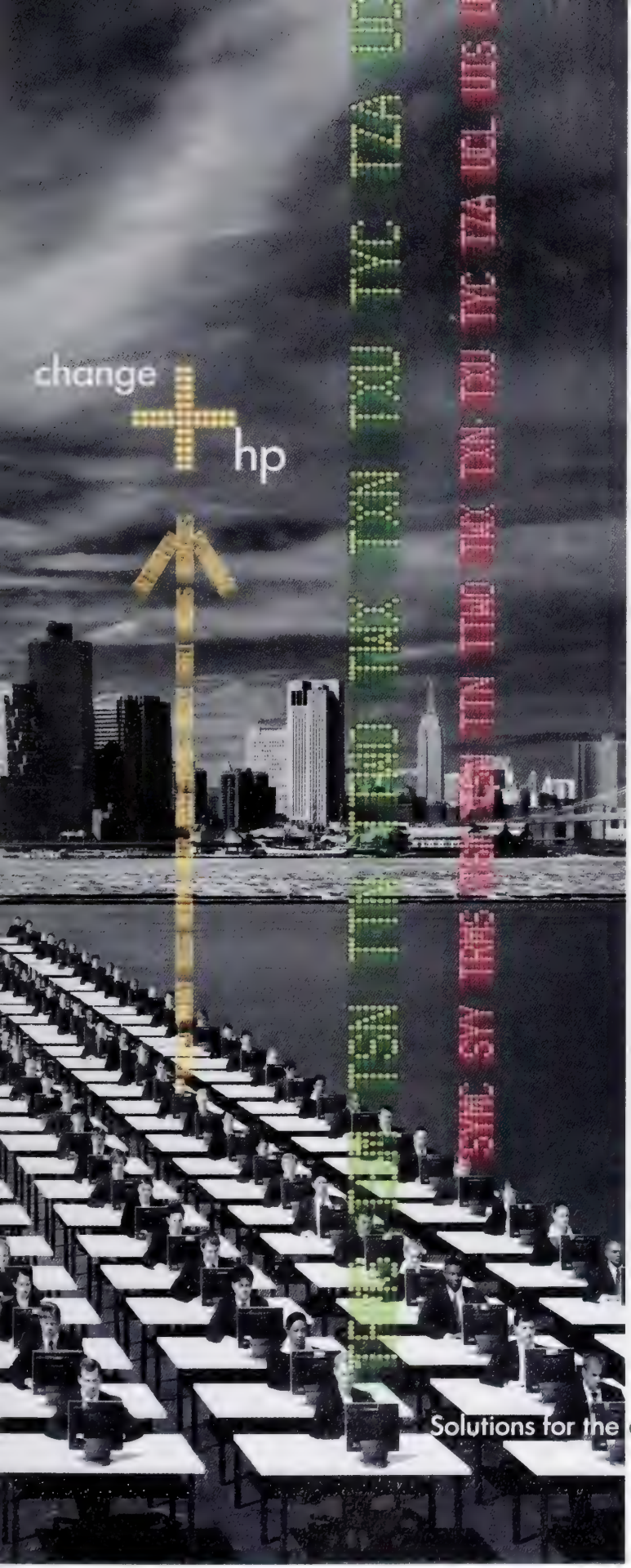

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Giving Voice to A Billion Things

WHEN ROBERT POOR LOOKS AT THE WORLD, HE SEES 50 billion embedded microcontrollers, the workhorse chips inside cars, traffic lights and air conditioners, doing their jobs in splendid isolation. Then he imagines what will happen when they all can talk to one another.

Ember, the company that Poor cofounded in 2001, gives mundane devices the power to communicate wirelessly. For $10 a light switch, and without having to tear up any drywall, you can shut off all the lights in the house by tapping one button. "When I talked about networking light switches four years ago, people looked at me as if I was crazy," he says.

Poor, 50, has always followed his own lead. He studied electronic music at Oberlin College in Ohio, moved to California and bounced through various computer jobs, including stints with George Lucas and Steve Jobs. Eight years ago Poor headed off to get a Ph.D. at MIT's Media Lab. His thesis was based on algorithms that describe how a large number of independent devices could beam data to one another, an approach called mesh networking. Typical wireless networks merely adopted the wired approach of connecting one device to just one other. Instead, Poor imagined tiny radios blasting out their message to anything within earshot. The broadcasts had to be strong enough to be heard 200 feet away, but not so overpowering as to drain battery life. "If every table has a device, you don't want them to all shout," Poor says.

Bluetooth, a popular protocol for short-range networking, zips along at up to a megabit per second, but it bogs down when more than eight devices are linked up. Poor took a lead role in creating a rival standard called Zigbee, which moves data only one-fourth as fast as Bluetooth but can handle hundreds of devices at once. Zigbee devices are designed to last five years on a pair of AA batteries. With Zigbee in place, Ember began selling chips to others and building nodes that could send and receive data.

EMBEDDED NETWORKS

Robert Poor
Ember,
Boston, Mass.

Cold-storage-device maker Sensitech attached Ember nodes to temperature gauges on refrigerated trucks. When fish from Boston reach Newark, a clerk can—without even cracking open the bay door—wave an electronic reader and learn whether the fish got too warm en route.

A portfolio of two dozen Ember-linked wireless gadgets for controlling a home's lights, temperature and entertainment gear is to debut in September, from Control4 of Salt Lake City.

Ember has 50 employees and 120 customers. It has raised $28 million and expects to raise more by summer's end. Poor has removed himself from day-to-day matters, bringing in a CEO. "I did a 'founder-ectomy,'" he says proudly. "I want Ember to be a big company. That means real capitalization, real growth to create large quantities of nodes. That means professional management." Poor, meantime, listens for what billions of devices will say. F

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Q. **Can I touch it?**

A. The adaptive enterprise isn't a theory, it isn't a slogan. It works today, right now. Thousands of customers are already experiencing concrete, proven, immediate results.

Q. **Will it hurt?**

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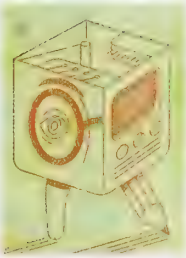
Design for Living

PATRICK WHITNEY'S CELL PHONE DRIVES HIM CRAZY. Its speed-dial settings do not change when he travels to another city. He can't send a message to his online calendar. It makes random calls when it gets squashed in his briefcase. Fixing these problems doesn't take new technology, he says, just better design. Whitney, 53, is the director of the Illinois Institute of Technology's Institute of Design, the largest full-time graduate school of design in the U.S.

His graduates inhabit design houses such as Ideo and Ziba and such tech titans as Ebay, Microsoft and Motorola. His students helped create Logitech's wireless headsets, Eli Lilly's disposable insulin injector, the displays on Life Fitness treadmills and an Evenflo baby stroller that can be steered with one hand. Whitney has devoted his life to redesigning design itself—function over styling, substance over glitz. A decade ago he began preaching "human-centered design," whose central tenet is to understand how people use technology, not how it works. "'User-centered' doesn't mean pandering to the consumer," he says. "You have to watch what they do, not what they say."

Whitney wanted to be an artist but became mesmerized by how design touches people's lives. He took over the institute in 1986, at 34. Soon enough his students were working with businesses and videotaping and interviewing people instead of drawing and modeling. "Our approach was very unpopular," he says. "It looked like we were selling out to business." But Whitney found fans among those who needed good design the most. F

E-GAN 2004



THOUGHTFUL GADGETS

Patrick Whitney
Institute of Design, Chicago, Ill.

BROADBAND WIRELESS

Rajiv Laroia
Flarion,
Bedminster, N.J.

Marrying the Ideal to the Real

RAJIV LAROIA WAS HANDED A DREAM assignment at Lucent's Bell Labs in 1997: Invent a way to put a broadband Internet in the sky. Don't worry about existing cell phone systems, just do it right.

Laroia had just spent five years in one of the last bastions of pure research, Bell Labs' mathematical sciences center. He likes to cut his lawn and iron his shirts because it lets him do more thinking. Nobody on his team even owned a mobile phone when they began the work. Seven years later Laroia has created an all-digital radio transmission technique that has won such fans as Nextel, Vodafone and Motorola.

Big wireless carriers need to deliver high-speed data without encroaching on the already-crammed spectrum devoted to voice. Easy-access Wi-Fi networks are beginning to challenge the cell providers. Laroia's solution is like Wi-Fi in the sky, only better. In February 2000—a month before the bubble burst—he quit Lucent, formed an outfit called Flarion and began raising a total of $150 million. Its scheme uses orthogonal frequency division multiplexing, which splits wireless signals into different frequencies and pushes data through relatively narrow windows of licensed spectrum without hiccups.

With a Flarion PC card you will get wireless e-mail and Web access at a torrid 1.5 megabits a second, three times as fast as the latest cellular design and over a greater range than Wi-Fi covers. Carriers can handle data far more efficiently. Nextel has 2,000 customers on a Flarion network serving 1,300 square miles around Raleigh, N.C. It could cost $2 billion to roll out a broadband system with Flarion—but three times as much with current technology. "The vision is that every bit is wireless," Laroia says. "There's no need to be tied to wires." F

GOAL!

DR-MV1

Wayne Gretzky
Hockey Hall Of Fame

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A chance for Sabre's Craig Murphy to even the score was just too sweet to pass up.

Cheapware

Corporate customers are fed up with high software prices and are convinced they're getting less for more. Some are switching to cheapie alternatives. A lot more of them are threatening to do so. By Daniel Lyons

CRAIG MURPHY HAS HAD ENOUGH. AS CHIEF TECHNOLOGY officer at Sabre Holdings, which runs the world's largest airfare and ticketing network, Murphy has spent millions of dollars on database and other software from companies like Oracle. But last year, when Sabre was building a new computer system for online shoppers, Murphy took a flyer

Marten Mickos' MySQL database program is the hottest cheap date in software.

on a database program from a little-known company in Sweden that charges only $495 per server computer, versus a $160,000 list price for Oracle. Guess what? The Swedish stuff works great. Fired up, Murphy is hunting for other places to use the cheaper software, called MySQL.

"We're just not going to pay license fees for those databases like we used to. We'll download free stuff off the Internet before we do that," Murphy says. "I believe this is the future of computing."

If he's right, the future will be dreadful for software vendors like IBM, Microsoft and Oracle. Customers will balk at ever-escalating prices for mainstream products and will opt whenever they can for bargain-basement software based on freely available code such as MySQL or the Linux operating system. They're using the mere threat of installing this open-source software to browbeat Oracle and Microsoft into coming back with better prices. And, increasingly, customers are refusing to buy software at all, instead renting it over the Internet from service providers like Salesforce.com and Ketera, whose fees are 50% to 80% lower than the cost of installing and maintaining the packaged software equivalent. Venture investors are pumping millions into new low-cost providers, encouraged by the success of cheap-ware pioneers like Salesforce.com and Linux distributor Red Hat, which boast market values of $1 billion and $2.6 billion, respectively.

"Software is not rocket science. It's a commodity. **THE BUSINESS HAS BEEN OVERGLORIFIED FOR 20 YEARS."**

"There's just no reason for customers to be paying so much for software," says Marten Mickos, chief executive of MySQL AB, in Uppsala, Sweden. "Software is not rocket science. It's a commodity. The business has been overglorified for 20 years."

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Some glory is earned. MySQL offers only a subset of what Oracle's 10g Enterprise Edition database offers. They are not the same in the way two bushels of soybeans are the same. But sometimes the small, cheapie product will do the job.

Software now claims a fifth of the $960 billion the world spends annually on computer systems, up from one-tenth of a $464 billion pie in 1990, according to IDC, a market researcher. Hardware sales dropped from $460 billion five years ago to an estimated $365 billion this year as hardware suffered commoditization and ruthless price-cutting from suppliers like Dell. Now it may be software's turn for some pricing pressure.

Still, the software companies have something in their favor that soybean farmers, and even Michael Dell, do not, and that is that the marginal cost of producing an additional unit of output is close to zero. In this way, making software is like making movies. A low-budget *The Blair Witch Project* can succeed, but that doesn't stop Warner Bros. from making a ton of money off an expensively produced *Harry Potter and the Prisoner of Azkaban*.

Software vendors also benefit from users' inertia. On your next laptop you could get Corel's WordPerfect a lot cheaper than Microsoft's Word. Why might you stick to the expensive program? So you don't have to learn new commands.

Executives at Microsoft and Oracle dismiss MySQL as too puny to handle serious corporate projects. The Swedish company will likely gross $20 million in 2004; Oracle generates that much every 17 hours. "You don't want to use products from companies that perceive themselves as commodity suppliers to handle your data," says Robert Shimp, vice president of technology marketing at Oracle in Redwood Shores, Calif.

Mickos says he's glad bigger rivals dismiss his company. While they're not looking he has been winning business in the data centers of FedEx, Ingram Entertainment, Lufthansa, NASA, Omaha Steaks, Sony, Suzuki and UPS.

Some of the most enthusiastic users of MySQL's code are other high-tech companies. Cisco Systems installs MySQL in the routers it sells. Google and Yahoo use MySQL in their systems. Adobe Systems uses MySQL to manage software downloads from its Web site. PriceGrabber.com, an online comparison shopping site that

Party Crasher

Not long ago most corporate computer managers viewed open-source programs like MySQL as toys fit only for hobbyists. But then Linux, an open-source operating system, became a smash hit in corporate sites. Now the folks who embraced Linux are snapping up other bargain programs such as Apache, which serves up Web pages, the MySQL database and scripting languages like PHP, Perl and Python, which are used to create Web pages. So many companies use the combination of Linux, Apache, MySQL and PHP (or Perl or Python) that they're described with the acronym LAMP.

Hollywood digital special effects shop Hammerhead Productions has slashed thousands of dollars in software costs by using LAMP on Intel-based servers instead of specialized commercial applications on pricey Windows machines. Ebackbid spent nary a dime last year on software to create a Web auction business for school supplies.

Now, for virtually every commercial application—word processor, spreadsheet, e-mail, photo imaging—there's a low-cost or no-cost alternative. —*D.L.*

Operating system
Microsoft Windows; Unix
VS.
Linux

Email
Microsoft Exchange; Lotus Notes
VS.
Scalix

IP Telephony
Cisco Call Manager
VS.
Asterisk

Web server
Microsoft Internet Information Server
VS.
Apache

Application server
IBM WebSphere; BEA WebLogic
VS.
JBoss

Photos, graphics
Adobe Photoshop
VS.
Gimp

Database
Microsoft SQL Server; IBM DB2; Oracle
VS.
MySQL

File sharing protocol
Microsoft Server Message Block
VS.
Samba

Scripting language
Microsoft Active Server Pages; Sun Microsystems JavaServer Pages
VS.
PHP (Zend Technologies)

Desktop applications
Microsoft Office
VS.
StarOffice (Sun Microsystems); OpenOffice

Customer management
Siebel
VS.
Salesforce.com; NetSuite

Spend management
Ariba
VS.
Ketera

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handles 12 million visitors a month, runs entirely on MySQL and pays less than $10,000 a year for support. The same from Oracle would be $100,000 to $200,000, reckons Corey Ostman, PriceGrabber's chief technology officer.

Lycos Europe last year moved its online dating system from Oracle to MySQL and slashed costs from $120,000 a year to $7,000. Now all of Lycos Europe is moving to MySQL, says Per Larsson, team manager in Lycos' technology division.

If you want to sell cheap, you have to make cheap. Most of MySQL's 160 employees work from home, and the company does almost no advertising. Customers often download the software over the Internet, and because the underlying code can be viewed and modified by any of them, they share the R&D burden by developing new features and spotting bugs. MySQL lacks advanced features like "stored procedures" and "triggers" that loftier rivals offer. But many simple jobs don't require those features. So why pay for them?

The packaged software business model, refined over several decades, boils down to two things: Find ways to addict customers with special features and then extract an unending stream of revenue via upgrades and maintenance fees. If nothing else, they buy to get the bug fixes and security patches. Annual maintenance fees have gone from 17.5% of a program's purchase price in 1999 to 19% today, according to Jeffrey Tarter, executive director of the Association of Support Professionals.

"They're KILLING US ON THE MONEY and delivering very little change."

One of software's hallowed traditions is to base license and maintenance fees on the number of computers a customer owns. Every time someone like Sabre's Murphy adds a new computer, his fees go up. "As we were scaling up, some of our vendors were scaling with us in a way that was more attractive for them than it was for us," Murphy says.

For Murphy, who has been managing computer systems for 20 years, the chance to even the score was just too sweet to pass up. Most open-source programs let customers buy one copy and run it on as many machines as they want. Sometimes even the first copy is free, with vendors hoping to make their money selling service and support. (It turns out that "free" software like Linux is not really free.) In the case of MySQL, Murphy pays a small license fee for each server plus an undisclosed amount for technical support. The typical price of MySQL's top-level round-the-clock support is $50,000 a year for up to 50 servers.

Today Sabre runs MySQL on 45 servers, each with four Intel Itanium processors. Sabre hopes to deploy MySQL on 50 more such machines by year's end and could add up to 200 more MySQL systems over the next few years. Without giving specific dollar amounts, Murphy says that by using MySQL and a handful of other open-source packages to run his Web site, he has cut certain ticket purchase processing costs by 80%.

"This doesn't mean we'll have no more Oracle or proprietary software. But the future is slanted away from it. There may be a niche for proprietary programs, but I believe the future lies in open systems and open-source," Murphy says.

E-Trade, the online brokerage firm, has slashed its IT budget by 50% through measures that include replacing Sun Microsystems hardware and software with Intel-based computers running Linux and the open-source Apache Web software. Now E-Trade is considering dumping Web programs made by BEA Systems and replacing them with an open-source alternative. Though E-Trade still uses commercial database programs from IBM, Oracle and Sybase, "We would absolutely look at alternatives," says Joshua Levine, chief technology officer at E-Trade, in New York.

"Every company selling us software is balancing their need for continuing revenue against our need for continuing innovation, and the balance may not be optimal for us," says Levine, who describes some of his suppliers—he won't say which—as "straight marketeers who are killing us on the money and delivering very little change." The mere threat of switching to open-source programs gives him leverage in negotiating prices with traditional suppliers. "For the first time ever, open-source is allowing customers to manage vendors, as opposed to them managing you," he says.

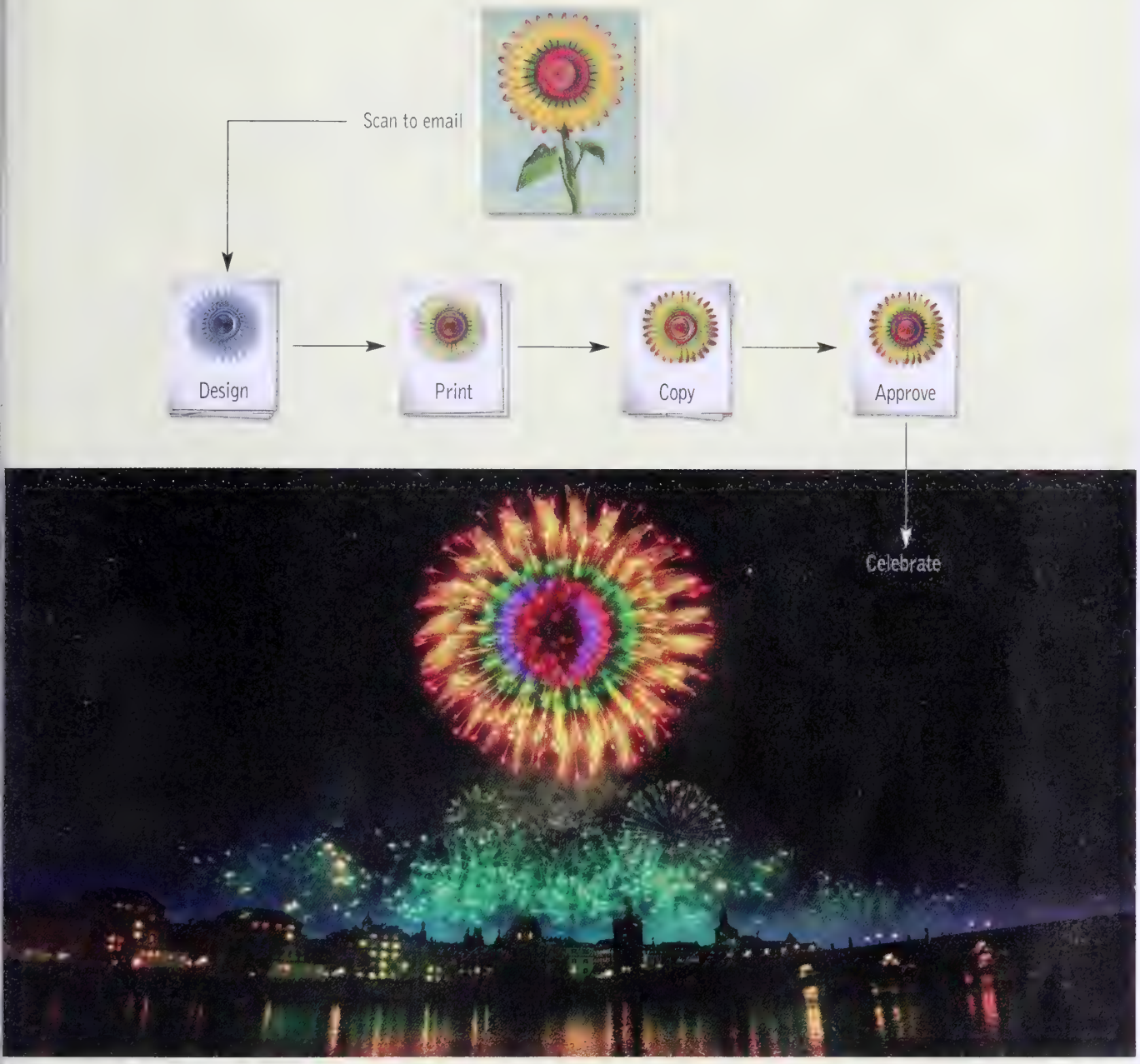
Esker, a French software maker whose U.S. headquarters is in Madison, Wis., last year ripped out customer relationship management programs from Siebel Systems, replacing them with an Internet alternative from Salesforce.com. Esker pays $120,000 per year to rent applications from Salesforce.com versus $250,000 to run Siebel programs in its own data center.

It seems that Siebel overplayed its hand. Two years after installing Siebel, Esker was encouraged to upgrade to a new version, which was going to mean buying new hardware and incurring the cost of the move, plus new license and maintenance fees. "If we wanted to keep using the version we already had," says Jean-Michel Berard, chief executive of Esker, "they were going to raise our maintenance fees from $50,000 to $70,000 a year." He decided he'd rather uproot than upgrade.

Siebel and Oracle are alert to the threat. They have started offering their software to some customers as a pay-as-you-go ASP, or application service provider. But there's a lot of short-term pain in switching from licensing, in which most of the revenue flows through the income statement immediately, to subscriptions, in which a company must spread the revenue over several months or even years.

"The transition will kill most companies. You almost have to build these ASP companies from the ground up," says Stephen Savignano, a 25-year software industry veteran and now chief executive of Ketera Technologies. It sells its procurement software and service online and has gained 50 customers in 18 months. Savignano says Ketera charges 80% less than the cost of installing and maintaining packaged software from its chief rival, Ariba.

In the good old days, says Savignano, software makers had a license to print money. No more: "Those days are gone. They're gone for good." F



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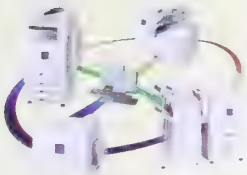

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MATERIALS

Nanofear

Pat Mooney stirred up a hornet's nest for biotech. Will he do the same for nanotechnology?

BY MICHAEL FREEDMAN

Pat Mooney has taken a stand against nanotech, sowing fear and doubt over biological risks that lack hard proof.

THE SCIENCE OF SMALL MIGHT have a big problem. His name is Pat R. Mooney, and he is a high school dropout from Canada with no scientific training. Yet his Ottawa organization, the ETC Group, is widely credited with being one of the first to raise health and environmental concerns about genetically modified food. Its efforts, along with those of other outfits like Greenpeace, led to a public relations fiasco for the biotech industry. In Europe the name Monsanto, which sells genetically modified seed, still exemplifies the ugly American multinational. Because of the fear Mooney helped generate, Nestlé and others don't sell food with GM ingredients in Europe. Restaurants post signs assuring customers meals are virtually GM-free.

Now Mooney, 57, has set his target on nanotechnology, the business of manufacturing on a molecular scale. Nanoparticles are already used in drugs, cosmetics, food additives and baby products. Nanotech has brought us the mundane—Eddie Bauer's $49.50 Nano-Care khakis that resist stains and wrinkles—but also promises profound advances like cancer drugs that hunt through your

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Governments, companies and venture capitalists worldwide invested $6 billion on nanotech last year. Yet to hear Mooney tell it, all this money is pouring into a technology filled with "incalculable risks," including health and environmental problems and the proliferation of weapons of mass destruction.

There has been scant peer-reviewed scientific research on possible nanoparticle risk, maybe four dozen studies, according to Kristen Kulinowski of Rice University's Center for Biological and Environmental Nanotechnology. But Mooney's claims are backed by just enough science to generate headlines—and fear. Over the last 24 months he has met with interest groups in Thailand and Chile, regulators in Washington and Brussels and scientists in Houston and Cape Town. His goal: to spread the word of risks and persuade regulators to declare a moratorium on new nanotechnology research until there is an established protocol for safety and a public discussion on the impact of the technology. "We're saying this is going to be the biggest technological change you've ever seen," says Mooney, "and you need to start paying attention."

The biggest battleground could be in Europe, where groups like Mooney's hold far more sway than in the U.S. Consumers there are prone to panic (witness the 1999 Belgian episode of mass hysteria over harmless Coca-Cola), and the Greens are politically powerful. Last year Mooney's group organized an event in Brussels at the European Parliament, where some 250 regulators, legislators and others came to discuss the potential for new regulation. Corporate Watch U.K., an antibusiness group, recently announced plans to map the nanotech industry and provide campaigners with corporate targets.

Mooney also published a report called The Big Down, which was based largely on news clippings but found its way into a report by Zurich insurer Swiss Re. The white paper caused a stir this spring when it suggested the release of nanomaterials could cause all sorts of health and environmental problems and compared some nanoproducts to asbestos. "There could be lawsuits even if the risk is not real," says Marcel Buerge, head of risk engineering at Swiss Re. "This is tricky."

Mooney's writings also caught the eye of Prince Charles, who invited Mooney and a small group of scientists and nanoskeptics to a dinner at Clarence House, his personal residence. In early July the prince penned an op-ed for the *Independent on Sunday* which warned that nanoparticles could behave as carcinogens.

The concerns of the prince and others also sparked a government-commissioned study from the Royal Society, the United Kingdom's academy of science. Released in late July, it recommends greater regulation of nanomaterials, including treating them as new chemicals under U.K. and European legislation, which would trigger additional safety tests and labeling.

But while nano is high on Swiss Re's radar, other insurers aren't as alarmed. "We are much better off looking at leading causes of death," says Robert K. Gleeson, M.D., medical director at Northwestern Mutual. "Smoking and obesity each cause 400,000 deaths a year. Nanotech is still a zero."

Entrepreneurs who work with nano-related products say the activities of ETC and other pressure groups can be costly distractions. Greg Schmergel is chief executive of Nantero in Woburn, Mass., which uses nanotechnology to build memory chips. He planned to enter a joint venture with a large company a few years ago. But the potential partner backed out, he speculates, because of groundless environmental worries fomented by pressure groups.

"There could be lawsuits EVEN IF THE RISK IS NOT REAL. This is tricky."

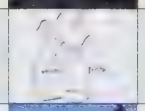
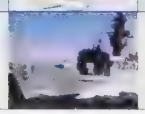
Large companies that have been through this wringer before are treading cautiously. BASF meets regularly with groups like Mooney's and has embarked on a public education campaign in Germany. DuPont has turned to Ecos, an environmental consulting firm run by former Greenpeaceniks, to test its message prior to sometimes uncomfortable meetings with Mooney or his ilk. The NanoBusiness Alliance, a U.S. trade group, now corresponds with Mooney and his crowd, as well as with rulemakers on Capitol Hill.

The good news for business, says Tim E. Harper, head of the European Nanobusiness Association, is that it is much harder to define nanotech or find a Monsanto-like scapegoat. One thing he learned from that debate is that you cannot dismiss groups like ETC. "If you get in a fight with them, you will lose," he says. F

Additional reporting by Carrie Coolidge

It's Everywhere, Even Inside Slacks

Nanotechnology allows scientists to build at the atomic level, creating entirely new objects or enhancing what's already there.

PRODUCT		WHAT'S NANO ABOUT IT
Eddie Bauer Nano-Care Khakis		Molecular structures form barrier between cotton fibers and liquids.
Kodak EasyShare LS633		Digital camera with bright, crisp and low-powered nanostructured organic light-emitting diode (OLED) display.
Chevrolet Impala		2004 model saves on fuel with lightweight nanocomposite materials on body side moldings.
EcoTru		Hospital-grade cleanser that uses nanoemulsions to kill bacteria without using as much chemicals as non-nano.
Battleships		U.S. Navy uses nanoscale coatings to prevent barnacles and mollusks from gunking up hulls and propulsion shafts.

Sources: Forbes/Wolfe Nanotech Report; Lux Research.

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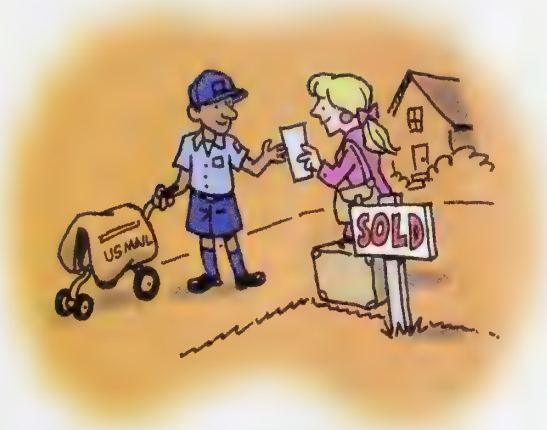
1 Guard your trash from theft by shredding documents and receipts. Thieves can build an alternate identity using the mail you throw away.

2 Don't leave credit cards in glove compartments. (Glove compartments account for thousands of credit card thefts.)



3 Always check your monthly statements. (Criminals will sometimes make a small purchase first, to see if it goes undetected, before making a big one.)

4 Notify the post office immediately if you change your address. Mail going to your old address can end up in the wrong hands.

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by Stephen Manes

Searcher of Your Own Domain

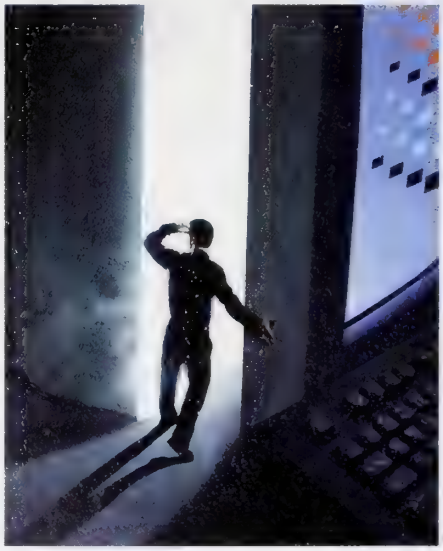
GOOGLE'S NEWSMAKING IPO PROVES THAT SEARCHING the Web remains hot. But an often more pressing need, performing a search of your hard drive's own electronic documents with Google-like speed, is just beginning to develop a buzz.

Google's new Gmail Web service lets you harvest relevant nuggets from your e-mail mine, but it is still in trials and not yet available to the general public and can't hunt through attachments anyway. The company isn't confirming the mounting rumors about the existence of a Google-for-your-hard-drive.

Microsoft has touted desktop search for a very long time; it's just bad at it. As Bill Gates admitted in a February *PC Magazine* interview: "We actually have in the operating system this text indexer; nobody turns it on, because it just sits there and grinds the disk...." The search functions in Microsoft applications like Outlook Express can be every bit as unsatisfying.

Google your own e-mail, calendar, contacts and documents—no Google required.

But at a July meeting for financial analysts, Microsoft Corporate Vice President Yusuf Mehdi demonstrated an unreleased version of a new local PC file search by finding the words "Total Attendance" in "an Excel spreadsheet that is inside of an e-mail attachment that's in my e-mail store." Microsoft trumpeted this technology as innovative, but competitors' existing products can already do the same trick and more.



The best I've found is Enfish Find. Once installed, it takes a couple of hours to index your mail (including attachments), contacts, calendar and files in popular formats. After that you can type in "Uncle Joe" and see everything on your hard disk that contains the phrase. Part of the screen shows a list of relevant items; the rest lets you look at the documents themselves, precisely where the first reference appears.

If too many items come up, you can narrow the results by adding words and/or restricting the search to specific types of documents or the dates they were created. Once you've found the right item, double-clicking will launch it in the proper application.

The $50 program installs optional toolbars in Microsoft Office programs and Internet Explorer, so a search is never far away. But I found a few glitches, such as calendar entries sorted by the day they were entered rather than the day they occur, and unexpected delays in updating indexes.

Enfish does create a potential security and privacy risk by retrieving and displaying Web links in received e-mail—potentially revealing your existence to spammers—even if you've told your e-mail client not to. But if you're willing to put up with that and take a bit of time learning the program's syntax, you're likely to find Enfish Find exceptionally useful. Skip the $200 Professional version, which adds needless complexity.

A reasonable $100 alternative ($75 till Sept. 15) is X1 Technologies' X1 Search. Unlike Enfish, it can find "shopping" and "shops" when you type in "shop." But whereas Enfish searches everything at once, X1 makes you perform annoying separate searches for files, e-mail, attachments and contacts and doesn't handle calendar entries at all. X1 has the same downloaded-links bug that Enfish does, but adds some glitches in the way it works with Outlook Express, like the inability to forward attachments if you launch a message from X1. It also crashed now and then on my machine.

A third program, HotBot Desktop, installs itself as a toolbar for Internet Explorer. It's free at hotbot.com but is currently so ill-conceived that it won't bother to index any files unless you go to an unobvious place and tell it to—and a major bug kept it from working with e-mail at all on my machine. But you might get luckier. The company plans significant improvements in a future release.

While waiting for Microsoft, and possibly Google, to get their entries into the market, you can sample X1 and Enfish in 15- and 30-day free trials. So it won't cost you a dime to see if you agree that Enfish is the real find. F

Forbes.com Stephen Manes (steve@cranky.com) was cohost of *Digital Duo* and has been covering technology for two decades. Visit his home page at www.forbes.com/manes.

BEST BUY
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Thirsting for Growth

You want a loyal customer in the beverage-can business? Help him when he's small beer.

BY SUSAN KITCHENS

JORDAN HARWOOD, THE 28-YEAR-OLD who heads a spanking new soda company called Bliss Beverage, wanted a small run of an odd-sized aluminum can. Last summer he asked Ball Corp. and Crown Holdings to make bids. They gave him the brush-off. Then he called Rexam, a packaging firm headquartered in London and the world's largest supplier of beverage cans. Robert McKinley, director of Midwest sales for Rexam's beverage business, rushed to Tempe, Ariz. to meet Harwood in his favorite nightspot.

By the end of that October evening Harwood had a supplier—and a booster. Rexam agreed to help launch and market Harwood's caffeine-loaded "energy" drink, called Socko. The packaging giant made an initial run of just 42,300 cans, for 9 cents each, instead of insisting on the standard 240,000 minimum. It's eating other costs, including the $5,000 it shelled out to create the 16-ounce can. It found an uncommon combination of blue and green ink to create the chartreuse disc logo on Socko's zebra-striped can. In addition, Rexam is helping Harwood deal with retailers, inventory and distribution. Harwood values Rexam's support at $300,000.

Seeing green: Rexam's Robert McKinley hopes small brands become big customers.

Why is Rexam bending over backward for an iffy beverage upstart? Few categories are as competitive—or as important to Rexam's bottom line—as nonalcoholic beverages. The company makes all types of packaging, from margarine tubs to perfume bottles, but it pulled in 45% of its $5.2 billion in 2003 revenue from Coca-Cola and PepsiCo. Until recently, it could count on sales—at 5 cents a 12-ounce can—pouring in indefinitely on large-volume orders from the two cola giants. But with cola sales fizzling in a category cluttered with water, tea and sports and energy drinks, Rexam needs new opportunities.

Breakthrough beverage brands are rare. When something takes off, it's often from a fringe player and in an innovative package. By giving undercapitalized upstarts a break, Rexam hopes to bolster its canmaking business. "Our business used to be: 'How many cans do you want?' and 'Here's the price,'" says McKinley. "Now we're pitching a new kind of business to our customers. It goes beyond just the product."

The company plans to nuture as many as 30 promising new beverages a year as both can- and brandmaker. Instead of taking an equity stake, Rexam asks drinkmakers to use it as a supplier if they hit it big. "The better we do, the more cans we will purchase from them," says Harwood. Asks, but doesn't demand—amazingly, the contract doesn't lock in the buyer.

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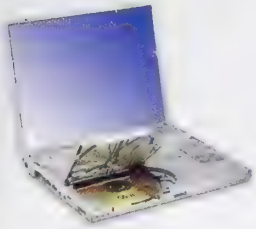

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On a roll: Socko creator Jordan Harwood, head of Bliss Beverage, launched an energy drink with help from canmaking behemoth Rexam.

Socko is Rexam's biggest bet on a new player since it started courting upstarts two years ago. The beverage has a fruity flavor and gimmicky ingredients, such as horny goat weed extract. But that's not what gets Rexam excited. Energy drinks are the rage among young men who quaff the stuff to stay awake while studying or clubbing. The weird flavors are often mixed with vodka.

Rexam knows the category well: It supplies the 8.3-ounce cans for Red Bull, the first of many energy drinks. Red Bull is the biggest among them, with 2003 sales of $1.4 billion. FORBES estimates Rexam had pretax earnings of $22 million last year on Red Bull can sales of $147 million. That brand's popularity prompted Rexam execs to pursue more fledgling players. "We are looking for another success story like Red Bull," says Lars Emilson, who heads Rexam's global can business.

At $2, Socko costs the same as Red Bull and other energy drinks, but its can is twice as big. That appeals to consumers and bar owners, who call fluorescent green Socko-and-Jägermeister drinks Yoda Bombers. Rexam hopes retail chains and casinos will want to customize Socko cans with their own logo. Another selling point: Socko, which rolled out in March, is sweetened with a Splenda-sugar mix instead of just sugar so it's lower in calories and carbohydrates than rivals.

"We are looking for another success story like Red Bull."

Early results are promising: Sales of Socko, available in five states, will total $2 million by the end of August, says Harwood. He just ordered a run of 240,000 cans and expects Rexam will break even on his product by December.

Socko has more potential than a few other of Rexam's picks. The packager also supplies Erektus, sold in the Czech Republic, and Joint Juice, a U.S. offering that's supposed to bolster joint cartilage.

Dabbling on the fringe isn't without some risk. The company will certainly irk its bread-and-butter clients if it helps create rival brands. Pepsi, for one, markets SoBe, a Socko-esque energy drink. And without an ownership stake in the new brands, Rexam has little control over dumb decisions made by beverage industry novices.

There's also no guarantee that drinkmakers will stick with the packager. Rexam rival Ball Corp. is now trying to woo Harwood's business after shrugging him off last year. For now, Harwood insists he's loyal to Rexam. Says he: "They've gone above and beyond for us." F

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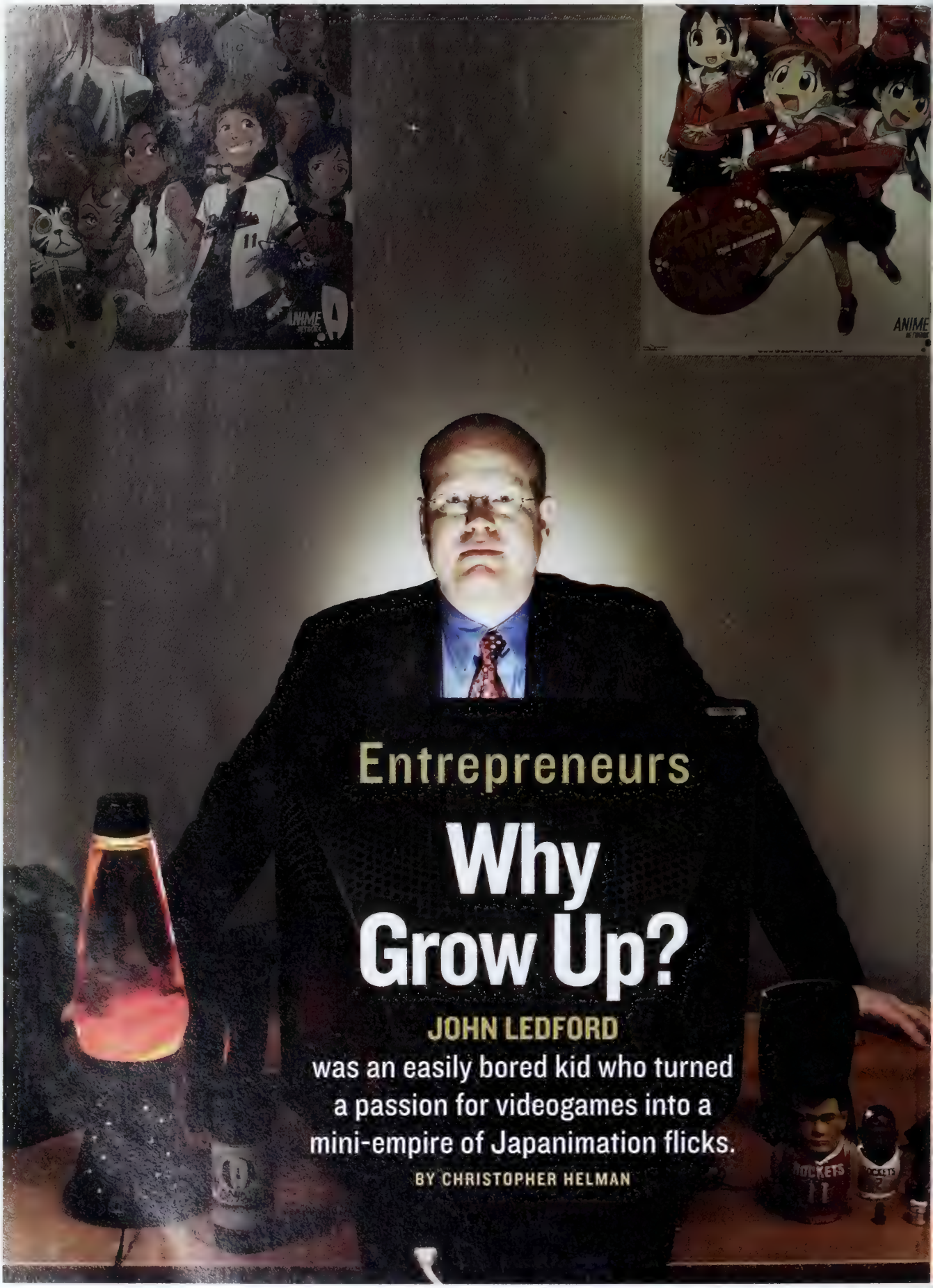

Entrepreneurs

Why Grow Up?

JOHN LEDFORD was an easily bored kid who turned a passion for videogames into a mini-empire of Japanimation flicks.

BY CHRISTOPHER HELMAN

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JOHN LEDFORD HAS DONE pretty well for a 35-year-old college dropout who never stopped watching cartoons. Today his ADV Films, in Houston, is America's leading licensor and distributor of Japanese animation, known as anime (AH-nee-meh), with 400 DVD titles slotted for this year. Only MGM, Columbia TriStar and Warner Bros. have more new releases. Distributed by the likes of Wal-Mart, Musicland and Best Buy, ADV's movie sales are up 30% this year, to $150 million—a third of the U.S. anime movie market. And in late July ADV added another revenue source: the Anime Network, a 24/7 ad-supported cable channel that plans to be in a million households by year's end.

All this grew out of a teenage passion for videogames. Unsatisfied with available systems, Ledford founded Gametronics in 1990 and began importing the newest gear from Japan and selling it out of his bedroom. He'd pay $150 for, say, Nintendo's Super Famicom or Sega's Mega Drive, then sell them for $1,500. He imported the games, too, which he marked up 100%. Street Fighter proved his bestseller. "We had people lined up to buy it for $135 a copy, even though they knew the U.S. version would arrive in a month or two." Business was so brisk that the parade of UPS trucks making pickups and deliveries drew the ire of neighbors—and pushed him to find office space.

A friend introduced him to anime. In this case it was the family-friendly classic *My Neighbor Totoro*, in which sisters wandering in the forest meet King Totoro, a spirit whose powers include making the trees grow and the wind blow. He takes the form of an enormous bunny rabbit and leads them on an adventure. In Japan such movies are enormously popular—to the extent that *Totoro* fans succeeded in having the forest that inspired the film declared a national park.

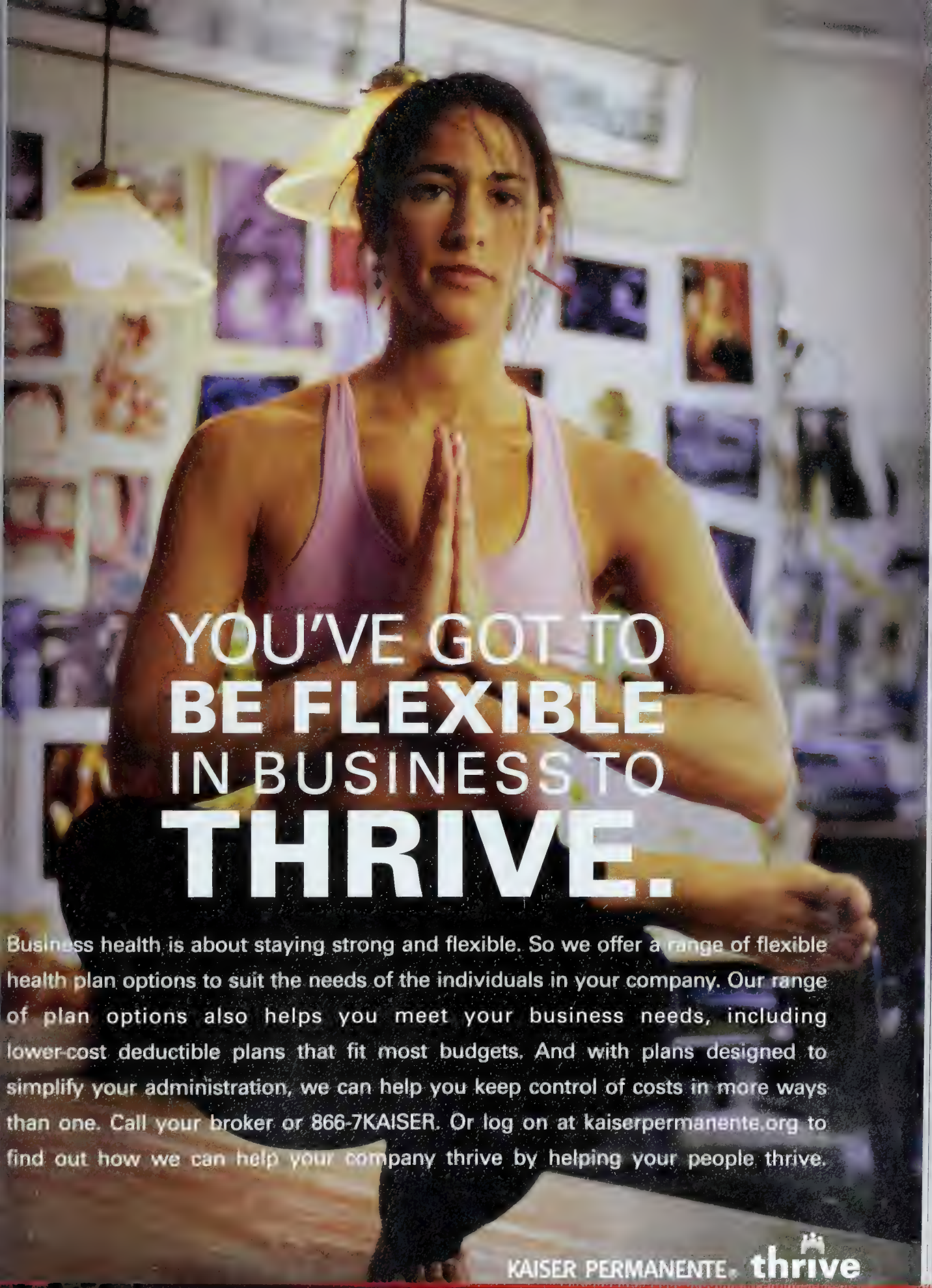
Ledford was inspired by a different kind of green, and in 1992 began licensing anime films to distribute on video in the States, starting with *Devil Hunter Yohko*. Based on a bestselling videogame, it chronicles the adventures of a doe-eyed teenage girl trained by her loony grandma to become the 107th in a line of demon fighters—along the lines of *Buffy the Vampire Slayer* but with more blood and skimpier outfits. Having launched ADV with buddy Matthew Greenfield, Ledford contacted Toho, the Japanese production company best known for its Godzilla flicks. "We were a little bit concerned about his ability to distribute the film," says Shozo Watanabe, general manager of Toho's Los Angeles office. "But we couldn't find another distributor." After a couple months of haggling Ledford snagged *Yohko*, spending $100,000 for the rights and subtitling—and the costs of getting 8,000 copies printed. He made his money back in 90 days. By the time he licensed his third movie, Blockbuster had placed a big enough order to guarantee a profit. Soon after, Ledford quit selling videogames and dissolved Gametronics to focus on ADV.

The vagaries of Japanese copyright laws require that licensing deals be done on a picture-by-picture basis. For exclusive distribution rights to the world outside Japan, ADV pays $1 million to $2.6 million for an anime series and $500,000 to $5 million for a feature film. Remastering the sound costs another $10,000 to $20,000 per half-hour. That's done at ADV's Houston production center—featuring eight soundproof studios with mission-control-style consoles to upgrade soundtracks. "If a gun slides out a turret door, Americans want to hear it make a sound," says Kevin Corcoran, ADV's chief operating officer, who joined the company four years ago. An army of 400 voice actors dub the films into English.

Two years ago ADV ventured into cable TV. Cablevision offers Anime Network on

"If a gun SLIDES OUT A TURRET DOOR, Americans want to hear it make a sound."

Toon in: Lady Death is a wrongly accused woman sent to fight Lucifer; kids in Miss Yukari's English class deal more with murderous volleyballs than dangling participles; Genjo Sanzo, an irreverent monk, battles demons.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Jane Mervar pictured with daughter Karli

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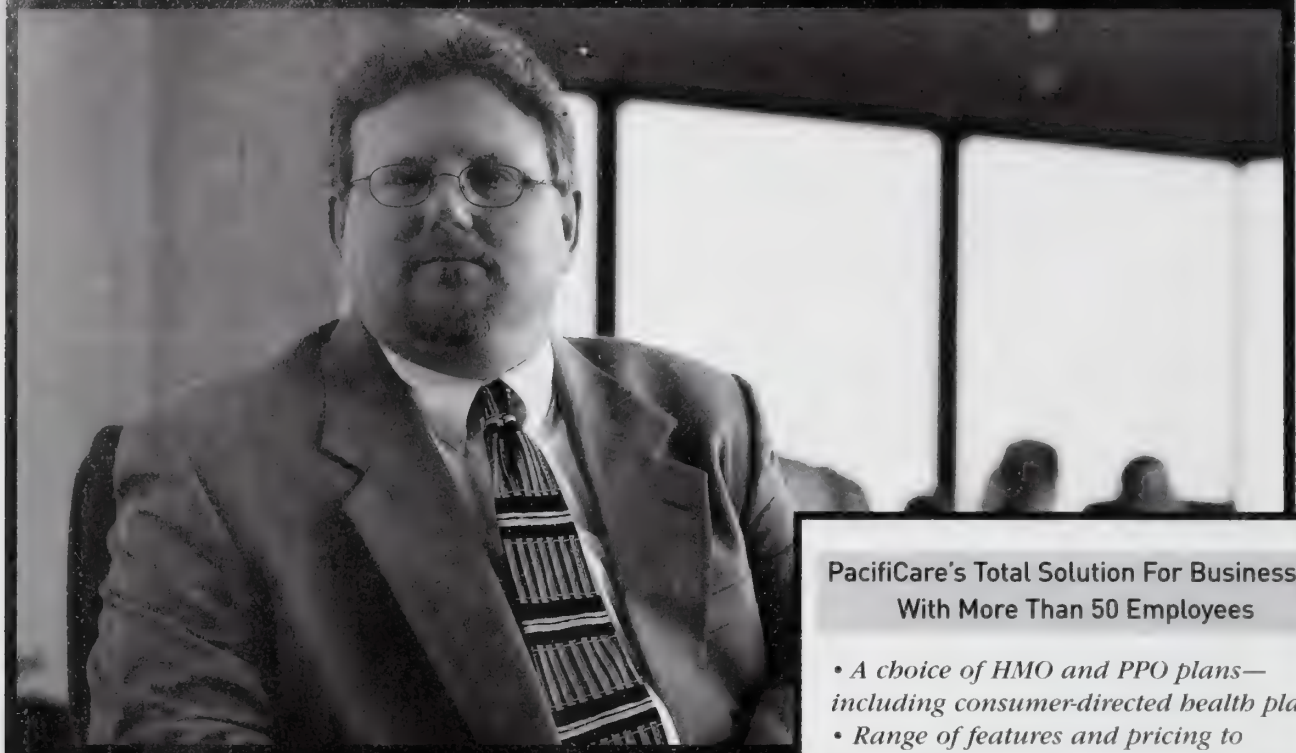

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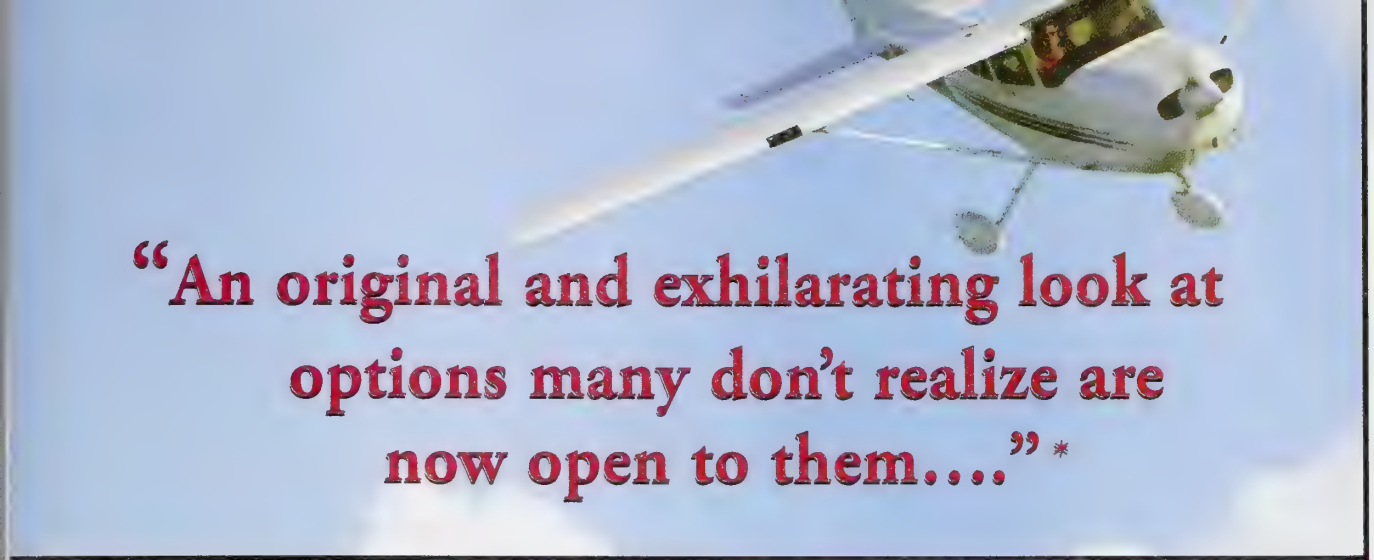

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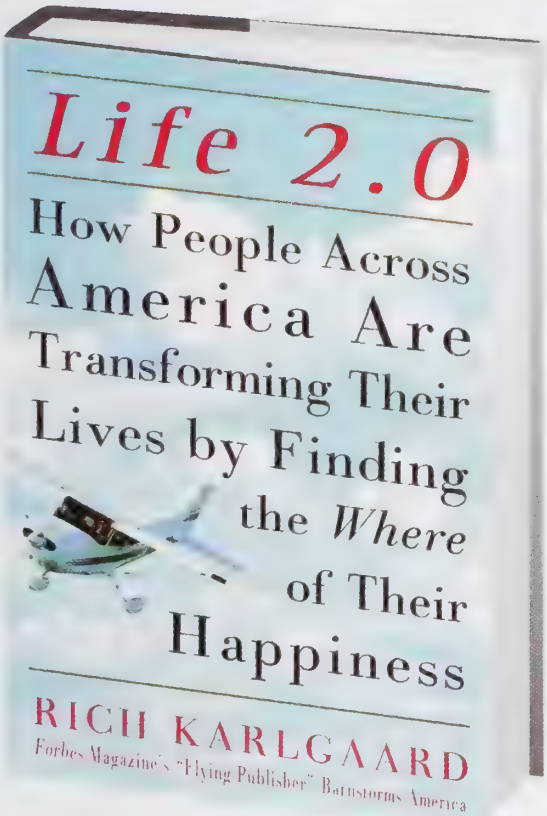

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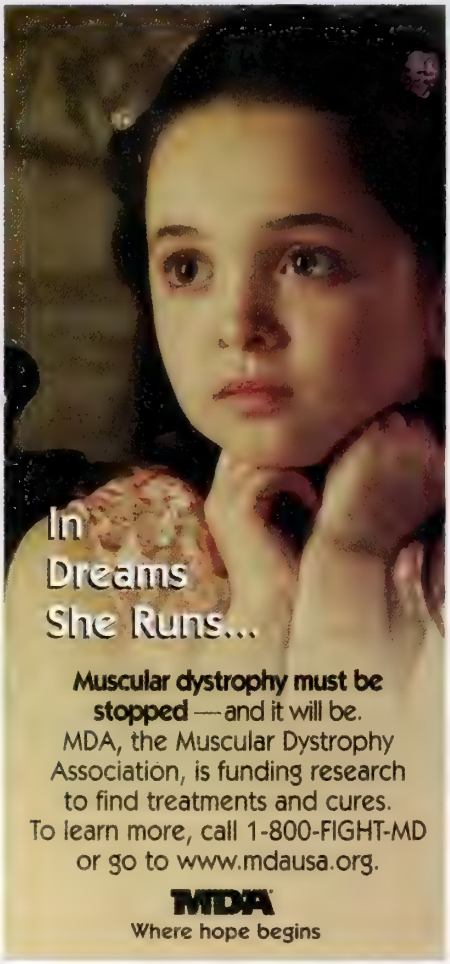

demand for $7 a month, while Comcast subscribers can see some 25 different anime films on a pay-per-view basis. Who watches this stuff? Millions of viewers, mostly guys 15 to 34 years old, who flock to the harder-edged titles like *Samurai X* and *Neon Genesis Evangelion*.

Such popularity gave Ledford the confidence to develop a full-time, ad-supported network and to persuade cable companies to pay to carry it. Low startup costs help, too. Most cable ventures spend $100 million before breaking even; the Oxygen Network has burned through some $500 million. ADV expects to get there in three years on $50 million, thanks to minimal content acquisition, since it already controls 1,500 anime titles. Much of that investment will go toward converting shows into digital cable format, building an ad sales division and paying to beam programming cross-country by satellite.

Oh, yes, competition. Time Warner-owned Cartoon Network goes out to 86 million households and already dedicates 25% of its lineup to anime. Though much of its anime is kid-friendly, like *Pokémon* and *Yu-Gi-Oh*, the network's late-night Adult Swim block offers the racier and more violent stuff that is standard fare on the Anime Network. Such shows can raise parental ire, says Robert Higgins, programming director for Cartoon Network. He points out, moreover, that feeding a 24-hour network could be challenging for ADV. "It's going to be hard for them to find that critical density of shows," he says. "That's a lot of hours, even if they've got every anime movie out there."

That's why ADV has begun making its own content. Conceptual artists in Houston and animators in Japan and South Korea are now at work on 26 half-hour episodes of *Mutineer's Moon*, based on a sci-fi pulp novel that Ledford and Greenfield read a decade ago. Premise: that the moon is really a disguised spaceship from a distant star that, after a botched mutiny, has sat dormant for 50,000 years, its crew having abandoned ship for Earth. When a wayward astronaut gets sucked inside the ship and discovers the truth, the battle begins for its control.

At least it's not another reality show. F

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For Tilman Fertitta, critters aren't just for eating. They are entertainment.

New Fish to Fry

Landry's Restaurants made its money on mass, not class. What's it doing with a $29 entrée?

BY LYNN J. COOK

HUNGRY? HOW ABOUT 33 SHRIMP on a plate for only $11. Or maybe an artery-clogging chicken-fried steak for $10, topped off by a brownie-for-two doused with ice cream and myriad gooey sauces, $12.

That kind of middlebrow menu has worked wonders for Tilman Fertitta, 46, ever since he got control of Landry's Restaurants in 1986. Today the publicly held chain has 300 eateries nationwide, with 18 brands like Joe's Crab Shack, Chart House and Rainforest Cafe.

Catering mainly to the tank-top and flip-flops crowd, Landry's has performed brilliantly since going public in 1993. The stock is up 265% from its offering price. Since 2000 revenue has doubled to $1.1 billion, and earnings before interest and taxes have climbed 132% to $68.4 million.

High-calorie foods have made Fertitta a very rich man. Over the past 11 years he has cashed out enough Landry's stock to pay for a $16 million, 145-foot yacht and a $20 million mini-Versailles mansion in Houston's River Oaks section, while still hanging on to shares worth $180 million.

Mixing a bit of Donald Trump with P.T. Barnum, Fertitta has added big doses of pizzazz to his recipes. In Kemah, Tex., 20 miles south of Houston on Galveston Bay, Fertitta has created a 40-acre carnival-like complex: ten restaurants, a hotel, a marina, dancing water fountains, a Disney-like train ride, lots of retail outlets and a marine-themed eatery called Aquarium—patrons munch on deep-fried fish while watching their close cousins swim around in huge saltwater tanks. "It's all entertainment," says Fertitta.

To get to where he is, Fertitta, who cashed in on videogames during Pac-Man's popular days, got into the restaurant business by buying into a Cajun seafood eatery in Houston owned by the Landry brothers of Louisiana. Since then he's leveraged up like crazy to expand by acquisition—nearly $300 million in debt to buy 14 chains in the past six years. One notable addition: the 34-unit Rainforest Cafe chain, replete with exploding volcanoes, bought in September 2000 for $75 million.

There's $62 million left on a Bank of America line of credit, says the latest filing.

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But "they've spent money like drunken sailors," says San Antonio forensic accountant Steven Bankler, who reviewed Landry's numbers for FORBES. Landry's debt/equity ratio of 50% is on the high side (industry average: 40%).

Maybe Fertitta is losing his taste for the big-ticket purchases that sweep up dozens of mass-market restaurants. Instead, he has recently developed a fondness for building individual high-end restaurants. A spiffy new Houston steak house, Vic & Anthony's (filet mignon, $29, a side of wild mushrooms, $8.50), just opened to a rave review from *Wine Spectator*. Fertitta is thinking of opening a second, in Manhattan. He also just plunked down $8 million for a trio of swanky Houston bistros, where the average tab is $18 for shrimp scampi or pan-seared snapper. "I don't want to spend the rest of my life opening Joe's Crab Shacks," he says. "It's not fun anymore."

But without the roll-up strategy that produced sizable revenue gains year after year, expanding by fewer units each year will trim the growth curve—and likely take some sizzle out of the stock (recently trading at $26.05, or 12.5 times expected 2004 earnings). No longer, says Matthew DiFrisco, a restaurant analyst at Harris Nesbitt in New York, will there be "acquisitions that immediately boost the top line, with margin improvements following."

"They've spent money LIKE DRUNKEN SAILORS," says a forensic accountant.

Then there's the mysterious disappearance of its chief financial officer. Three months ago, after 11 years on the job, Paul West abruptly departed, supposedly to go to law school, according to Fertitta. Landry's, which had recently fired Ernst & Young as its auditor, issued no official explanation. But his successor, Richard Liem, says West was let go because he "didn't appear to be 100% in the game."

West couldn't be reached for comment. Fertitta insists that Ernst & Young's fees were too high and that West's departure wasn't related. "Don't ever put the two together," he says. Ernst & Young's Houston office didn't return calls.

Separately, a class action by former employees alleges violations of minimum-wage laws and seeks damages in excess of $25 million. The company is contesting the complaint.

Fertitta claims Landry's isn't losing focus or momentum. The restaurants, he says, are like GM's cars: the same basics with "different designs, different garnish. Why couldn't we do both mass and class?"

If he can, he may be trading in that yacht for an even swankier model. F

Additional reporting by Tatiana Serafin.

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Grab the Energy Chain

Oil's price will not collapse to $28. Expect a stable $35 level that will provide ample profit opportunity to owners of Btu | BY MICHAEL MAIELLO

Energy stocks are undervalued, say seers Daniel Tulis *(seated)* and Paul Elliot.

IN THE PAST 12 MONTHS THE PRICE OF oil rose 50% to $45. The price of oil company shares (measured by the S&P 500 Energy Index) is up only 27%. Why is Wall Street so cool on the sector? Apparently out of a belief that oil prices will collapse in the near future, making the current gusher of oil industry profits a very short-lived phenomenon.

Energy savant Daniel Tulis has a different view. He thinks high prices are going to stick around for a while. Not as high as they are now, but high enough and long enough to make the energy-producing sector of the market a terrific buy. Tulis, 66, has been covering the sector ever since the first OPEC embargo 31 years ago. With some apparent success: Elco Energy, founded by Tulis' partner Paul Elliot in 1995, claims a 12.6% annual return since inception (after fees), besting the S&P 500's 11%.

If not stock traders, at least oil traders are expecting a future close to the one Tulis envisions. The December 2008 futures price for light sweet crude is $35. From such expectations Tulis reasons that oil and gas stocks are undervalued, along with stocks throughout what he calls the "energy chain," which starts with exploration and production and ends with power transmission.

Tulis oversaw electric power and natural gas research at Lehman Brothers, among other firms. When he entered the field in the early 1970s, dividend-paying utility stocks were all the rage. He has since lived through plenty of booms and busts. These, he believes, have taught investors, Wall Street analysts and energy company executives to expect price volatility and greet predictions of permanently high energy prices skeptically. During President Jimmy Carter's term, Tulis recalls, natural gas prices were inflated because the Administration predicted severe shortages and even mandated that gas be restricted to home heating and cooking. Carter was wrong, and new gas discoveries drove prices down to 80 cents per thousand cubic feet from $3 highs.

The first Gulf war created artificial fears of oil shortages that drove the price to $50 a barrel. But prices sank soon after, and in the late 1990s fell to $11. From then on investors have reacted by edgin away from energy names. Energy stocks excluding utilities, were 28% of the S&I 500 in 1980. They fell to 13% of the inde in 1990 and are only 6% now, despite th resurgence in oil prices. As the char shows, oil has come a long way in the pas 30 years, but not as far as the stock mar ket has.

Until recently Wall Street analysts hav hewed to guidance from Saudi Arabia Last year the Saudis said that the optimun oil price would be between $22 and $28 a barrel, and Saudi ambassador to the U.S Prince Bandar bin Sultan indicates the are still targeting that level. But, says Tulis the Saudis have lost their control over th price of oil, if indeed they ever had it.

The current $45 price, Tulis thinks can't be sustained, because new explo ration and refining capacity will kick in t some degree. Yet he rules out a return t cheap mid-$20s oil, since global demand i 80 million barrels a day and will be grow ing between 2% and 3%, while the sup plying countries expect productio growth of 1%. The Saudis are now pump ing 9.4 million barrels per day. Tulis say they might be able to go to 10 million Even if they do, China seems to gobble u half of every new barrel. Says Tulis "Everyone expected 2004 to be a dow year, so explorers didn't budget for drillin new wells. They have to catch up."

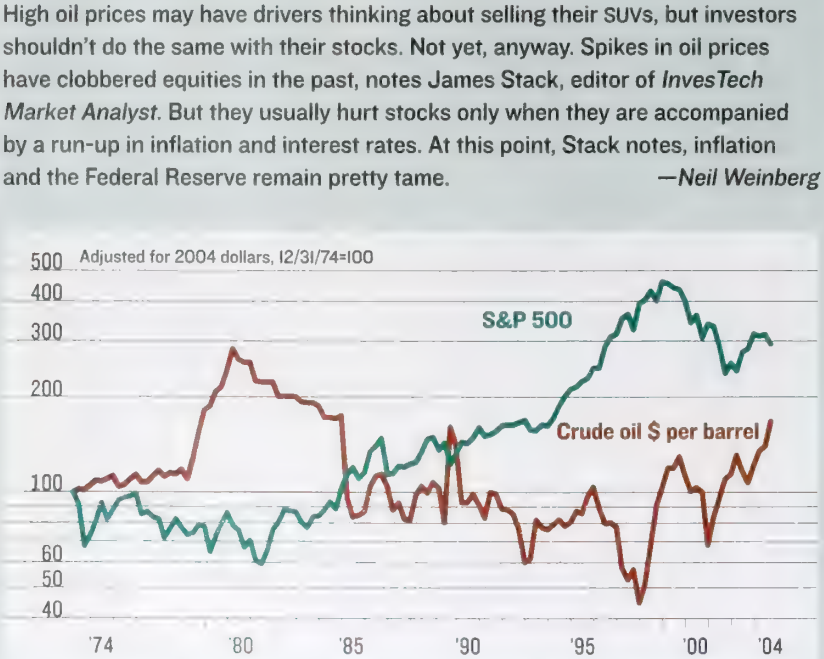
The refiners do, too. No large refiner has been built in the U.S. since the 1980s and at the moment, as Americans still ree from sticker shock at gas pumps, up to 2 million barrels a day of available crud supply can't be absorbed because o refinery shortages.

The big oil companies' stocks trade a midteens multiples. Some of them ar real buys, says Tulis. Here's a survey of hi favorites in the energy chain.

OIL. Tulis likes ChevronTexaco at $94 despite its heavy $10 billion debt and fla production forecast for this year. Tuli says Chevron should generate cash flo from operations of $17.08 per share i 2004. The other oil giants trade at 7.4 times cash flow, versus 5.5 times fo Chevron. Tulis suspects higher oil price will lift Chevron's multiple to 8, meanin

Don't Panic

High oil prices may have drivers thinking about selling their SUVs, but investors shouldn't do the same with their stocks. Not yet, anyway. Spikes in oil prices have clobbered equities in the past, notes James Stack, editor of *InvesTech Market Analyst*. But they usually hurt stocks only when they are accompanied by a run-up in inflation and interest rates. At this point, Stack notes, inflation and the Federal Reserve remain pretty tame. ***—Neil Weinberg***



Sources: Bureau of Economic Analysis; InvesTech Research.

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High Energy

These are among Tulis' favorites. By his estimates, the stocks trade below what they should (their intrinsic value) because investors expect another energy price slump.

	2005 ESTIMATE EPS	2005 ESTIMATE P/E	Recent price	Intrinsic value[1]
EXPLORATION & PRODUCTION				
Anadarko Petroleum	$5.41	11	$57.40	$71.00
Burlington Resources	2.71	14	36.73	44.00
MAJORS				
BP[2]	3.63	15	55.54	66.00
ChevronTexaco	6.92	14	94.63	108.64
OIL SERVICES				
BJ Services	2.38	20	46.68	50.00
Schlumberger	2.47	25	62.33	72.00
GAS MERCHANTS				
AES	0.68	17	11.76	15.00
Williams Cos.	0.75	13	9.40	11.50
UTILITIES				
Sempra Energy	3.05	12	35.81	39.00
Southern Union	1.41	14	19.16	23.60

Prices as of Aug. 9. [1]Value of the company, per share, based on net asset value and an average multiple of future earnings. [2]Traded as American Depositary Receipts.
Sources: Elco Management Co.; Thomson One Analytics; FT Interactive Data via FactSet Research Systems.

its stock should trade at $108. A $5 billion share buyback now under way and a 3% yield make it all the more attractive.

Cash flow (in this sense, essentially net income plus depreciation) is a measure not only of profitability but also of a company's ability to finance new exploration and development. Though ChevronTexaco is a Tulis favorite, he recommends all the multinational biggies with the exception of Royal Dutch/Shell, still reeling from the revelation that its reserves had been overstated.

EXPLORATION. With a sustained $35 oil price, Tulis thinks, stand-alone exploration companies like Anadarko Petroleum and Burlington Resources look attractive. Increased demand for new wells will boost their fortunes. This industry sector, he says, has typically traded at 1.2 times net asset value. Burlington Resources, at $37, has an NAV of $39, says Tulis. Hence, that stock is worth at least $44.

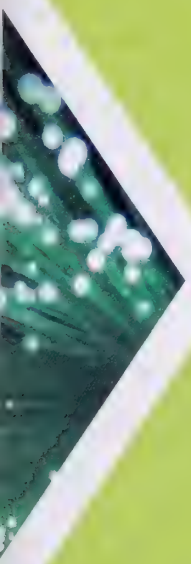
NATURAL GAS. Since natural gas is an oil alternative, prices will also be higher than Wall Street suspects, says Tulis. A hungry 170 gigawatts of gas-fueled power plants came on line between 2001 and 2004, even as gas production rates in North America slid by 3% a year. (A gigawatt serves half a million people.)

Tulis believes gas will average Wall Street's 2004 consensus of $5.88 per thousand cubic feet. It trades for $5.79 now.

One winner: the Williams Cos., a gas explorer and pipeline operator. At $9, Williams trades at a discount to its NAV of $15. Debt of $10 billion may explain the gap, but the company is moving to pare that. It recently sold off some Canadian power plants for $540 million.

UTILITIES. Amid rising interest rates, Tulis is skeptical of utilities, which tend to carry a lot of debt, can't raise electric rates without regulatory approval and are shunned by investors when bond yields make their dividends less attractive. Still, he has found a few he likes. Southern Union, a natural gas utility trading at $19, has nearly a million customers in Kansas City, Mo. and Rhode Island and recently acquired a 1,300-mile gas pipeline that connects the Texas panhandle to Michigan. It trades at 14 times likely 2005 earnings. Tulis says it will reach 17 times before the year is over. Tulis also likes Sempra Energy, an electric transmission company that serves 21 million customers, making it the largest electric supplier in the U.S. F

The coming together of the technology industry



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INTERNATIONAL INVESTING

A Chinese slowdown wouldn't ruin everyone's game, says Chau.

One China, Many Exporters

China's torrid growth may slow, but Peter Chau says one group of companies will stay strong: suppliers of goods in demand by the West, from chips to denim. | BY RUSSELL FLANNERY

CHINA BECKONS STOCK INVESTORS with the lure of brisk economic growth. Yet a school of prominent China watchers, led by Morgan Stanley strategist Andy Xie, warns that the domestic overheating could lead to a "hard landing" in sectors ranging from steel to real estate. The Chinese government, worried about that very thing, is trying to rein in the torrid expansion.

If China's growth does ease as a result, recognize that one set of Chinese companies should keep on chugging by profiting from the country's global competitiveness: exporters. With world economic growth at its highest in years and economic recovery gradually taking hold in the U.S., earnings at businesses exporting from China should be robust.

So says Peter Chau. A rarity in Hong Kong, with all its turbulent financial industry, the tennis-playing money manager has stayed for 15 years at the same company, CEF Investment Management, now part of CIBC-owned TAL Global Asset Management. In his current job as deputy managing director, Chau, 46, helps manage $400 million of Asian investments, mostly from institutional investors.

One of the keys to Chau's staying power: seeing China as an entity that includes Hong Kong and Taiwan. Billions' worth of trade and investments move monthly between the two smaller economies and the mainland's, and he judges companies according to how well they find niches in this three-part economy. His approach has paid off. TAL's Talvest China Plus Fund has increased by 19% annually since its 1998 inception, compared with a 2% decline in the Morgan Stanley Capital International Golden Dragon Index, a China benchmark. (The open-end $100 million Talvest China Plus Fund is aimed at Canadian investors, and Americans cannot buy it, but you can take advantage of Chau's ideas on individual stocks.)

Forbes

WIRELESS

STOCK WATCH

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AR INVESTOR:

Who would have thought that some of the NASDAQ's formerly highest-flyers would ever become "value stocks?" Yet that's precisely the case. n after last year's dramatic gains, some, but by no means all, of the recently hard-hit wireless stocks are trading at a fraction of their real value.

Perhaps the most costly legacy of the 3-year sell-off in technology stocks will ultimately prove to be missed opportunities as skeptical, ı-shy investors now sit out what will prove to be the greatest comeback in stock market history. I'm talking about the wireless sector, ady leading the NASDAQ and the rest of the markets by a huge margin.

Wireless is already a way of life in western Europe, Korea and China. In fact, in Korea, where they e true high-speed broadband, fully one third of all business is done wirelessly. Half of all bank ısactions are conducted online. Seventy percent of all stock trades are made online. The value of ea's Internet business is estimated at $450 billion.

China is adding new cell phone subscribers at the rate of 4 to 6 million a month. By the end of 04, China will have 320 million cell phone users. Despite dramatic gains on the NASDAQ, some of companies profiting most from wireless proliferation abroad have been overlooked by a still tech- ptical U.S. stock market. Others are poised to make rapid gains as the wireless revolution finally ds its way to America.

I hope that you will take a few moments to discover why this WIRELESS recovery is well-founded.

But please, be careful – only a few wireless stocks will emerge as winners in the wireless wars now raging.

In the U.S., wireless has been slower to live up to the great expectations of the late 1990s because of government regulation and taxation, and ıabbling over bandwidth access and competing technologies. But wireless has finally found practical ways to circumvent the roadblocks and real revolution is coming soon to America. The wireless revolution really is still in its infancy. Investing now in the right wireless stocks is the t way I know to double or triple your money over the next few years, regardless of the day to day ups and downs of the stock market.

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Cordially,

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Chau's fund currently holds shares in Taiwanese technology companies, mostly component manufacturers, that he believes will benefit from a global rise in consumer and business spending this year. Among that group is the world's number three manufacturer (after Samsung and L.G. Philips) of flat-panel displays, AU Optronics. Its shipments of large-size screens soared by 91% in the first three months of 2004 from a year earlier. AU, whose American Depositary Receipts trade on the New York Stock Exchange, raised its global market share during that time to 13.2% from 12%, according to an estimate by market research firm DisplaySearch.

Although semiconductor stocks have had a bad year—especially the newly issued (and Nasdaq-listed) shares of the mainland's Semiconductor Manufacturing International—Chau is hanging on to Taiwan's United Microelectronics. The world's second-largest specialized contract manufacturer of chips for such corporate customers as California designer Xilinx, United is benefiting from tight industry capacity. Its NYSE-listed ADRs trade at a lower trailing price/earnings ratio (14) than crosstown rival Taiwan Semiconductor Manufacturing, king of chip contract manufacturing.

Another of Chau's chip picks: Powerchip Semiconductor, which specializes in memory chips. While big U.S. rival Micron Technology has been losing money and is stuck with aging equipment, Powerchip has enjoyed recor earnings, partly due to timely investmen in cost-cutting processing machines.

Chau is hardly confined to tec exporters. Hong Kong-listed Weiqia Textile makes denim used in Levi's jean Its wares will be more competitive whe global trade in textiles is liberalized ne year. Then there's Hong Kong Techtronic, supplier of hand tools t Home Depot and Sears, Roebuck; should benefit from the U.S. economi recovery, Chau says.

That said, Chau also has his share exporters to avoid. Lenova, the bigge Chinese-owned computer maker, signe up this year as a sponsor for the 200 Summer Olympics in Beijing, but i profit outlook isn't Olympian. Restruc turing is going to slow earnings growt Chau says, and that fact makes its P/ ratio of 17 too high.

Similarly, Qingling Motors, a For partner in China, is facing more compet tion amid a wave of foreign investmen in the country's auto industry. Genera Motors, for instance, said in June planned to spend $3 billion on projec with partners. And shares in Tsingta Beer, the maker of China's best-know international brew, have grown pricey o Hong Kong's stock exchange following bidding war between SABMiller an Anheuser-Busch over Tsingtao riva Harbin Brewery. Avoid the froth and yo can find some good exporter opportun ties in China.

East Meets West

These Chinese export-heavy stocks should do well, no matter what happens. Most are inexpensive, and all will benefit from a strengthening global economy.

Company/exchange	Product	STOCK PRICE Recent	STOCK PRICE 52-week high	P/E
AU Optronics[1]/NYSE	flat-panel displays	$11.27	$27.14	5
BenQ/Taiwan	LCD screens	34.40	46.36	11
Powerchip Semiconductor/Taiwan	computer chips	21.60	39.00	NM
Skyworth Digital/Hong Kong	set-top boxes	2.08	2.90	14
Techtronic Inds/Hong Kong	hand tools	11.40	13.60	23
United Microelectronics[1]/NYSE	computer chips	3.68	5.90	14
Weiqiao Textile/Hong Kong	denim	12.55	13.60	15

Prices are as of Aug. 9 and are in U.S. dollars. [1]Trades as American Depositary Receipts. NM: Not meaningful.
Sources: TAL; Worldscope via FactSet Research Systems; Bloomberg.

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STOCK FOCUS

Cherry-Picking Growth

Richard Aster finds reasonably priced growth stocks in mundane industries | BY SUSAN KITCHENS

RURAL HOSPITALS, CAR INSURERS and furniture stores aren't exactly the first businesses that come to mind when talking about growth stocks, but fund manager Richard Aster Jr. picks through such sleepy industries to find growing companies that others have ignored.

Aster's growth strategy rarely includes Internet and biotechnology stocks. In the late-1990s tech bubble it was painful watching other fund managers make easy money. "When it all blew up, we looked pretty good," says Aster, who manages $3.4 billion at Aster Investment Management in San Francisco.

Four years after the Nasdaq party ended, Aster, 64, is still enjoying the fruits of his prudence. His Meridian Growth Fund, which invests in companies with market values between $500 million and $2.5 billion, has returned an annualized 14% during the past five years, twice the rate of the Russell 2000.

A former bank examiner with the U.S. Treasury Department, Aster, a California native, started his fund company in 1977 and has been the sole manager of the growth fund ever since. Unlike many other growth managers, Aster pays a fair amount of attention to balance sheet ratios like that of debt to total capital. An expectation of 15% annual growth is good enough for him. He'll hold for three to five years.

Aster also looks for companies that can finance their own expansion, so he pays close attention to return on equity. For example, a company might not be able to finance its growth if profits are increasing at a 20% annual clip but its return on equity is only 10%. To be sure, this sort of ROE appraisal is only a crude measure of ability to finance growth internally—a better gauge would come from a close reading of the flow of funds statement—but it may tip you off to problems.

One holding: Andrew Corp., which supplies coaxial cable, power amplifiers and microwave antennas. Customers include cellular operators and telecommunications equipment firms such as Lucent Technologies and Motorola. Aster thinks that Andrew has excellent growth potential—particularly in China and India, where wireless penetration is low relative to the U.S.

The trailing price/earnings ratio on this stock is steep at 32. But Aster notes that Andrew's $1.6 billion market value is only one times sales and not much more than book value. Debt is only 16% of capital. Aster thinks that if the company can produce a 15% return on equity in three years, it can boost earnings per share to $1 by then. This implies a (way) forward P/E of 10.

Another pick is Mercury General, a California auto insurer. Insurance isn't usually considered a growth industry, but Aster argues that this firm is an exception. He notes that while Mercury's competitors tend to chase market share by offering unprofitable rates at times, Mercury typically wins new customers in places where a competitor has pulled back its operations or gone out of business. Thanks to this strategy, Aster believes Mercury will be able to post 15% annualized earnings growth over the next three to five years.

Aster is also bullish on furniture retailer Ethan Allen, one of only a few remaining national chains. He says that one way Ethan Allen has managed to maintain a high level of profitability in a tough industry has been by emphasizing customer service. The stock sells for 15 times trailing profits.

Health care stocks held by Aster include LifePoint Hospitals and Province Healthcare, two firms that buy and revitalize rural hospitals in the U.S. At less than 17 times latest 12-month profits, and with expected earnings growth of at least 15% for the next several years, both outfits look like bargains.

FORBES rates the Meridian Growth Fund, which has $1.3 billion in assets, with a C in bull markets and an A in bear markets. The fund is also rated a Best Buy, based on its risk-adjusted performance and low costs. Whereas the median growth fund has annual expenses of $1.45 per $100 in assets, the figure at Meridian is just $0.95. This fund doesn't charge a sales fee. F

Long-Distance Runners

Richard Aster Jr., who manages the Meridian Growth Fund, favors modest growers over sprinters like Google and Ebay.

Name/Industry	Recent price	Estimated Earnings P/E (2005)	Estimated Earnings Long-term growth[1]	Latest 12-month sales ($mil)
American Power Conversion/technology	$15.90	20	13%	$1,572
Andrew Corp. /wireless infrastructure	9.78	15	14	1,696
CBRL Group/restaurants	30.26	12	14	2,354
Ethan Allen Interiors/furniture	34.00	13	11	955
LifePoint Hospitals/health care services	33.08	14	15	968
Mercury General/auto insurance	48.26	11	10	2,469
Province Healthcare/health care services	13.50	12	15	802
Weight Watchers Intl/consumer services	34.49	17	19	974

Prices as of Aug. 12. [1]Annualized. *Sources: FT Interactive Data, Reuters Fundamentals and Thomson First Call via FactSet Research Systems.*

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Trial by Fire

COVAD COMMUNICATIONS (2, COVD) deserves a gold star simply for surviving the Internet wipeout. Rivals like Rhythms and NorthPoint are memories. In the 1990s Covad built the nation's largest digital subscriber line (DSL) network, offering rapid net access, but fell into Chapter 11 and got delisted from Nasdaq. Now the company is back from bankruptcy, trading on the o-t-c bulletin board and narrowing its losses. For 2004's first half the red ink shrank 66% to $21 million. Revenues increased a healthy 18% to $216 million.

The big risk here has to do with the Federal Communications Commission's decision to stop forcing the Baby Bells to lease out their consumer phone lines at discount prices. But that ruling might not daunt Covad, since the bulk of its revenue comes from business customers. In April it struck a three-year deal with Qwest, for undisclosed terms, to continue renting the Bells' lines. Plus, notes Pascal Aguirre, senior vice president at Adventis consultants, Covad has expanded its business by a shrewd purchase earlier this year of GoBeam, a seller of cheap phone connections over the Net. Its Voice over Internet service goes for 30% to 40% less than traditional phone rates.

A good sign is that the company's chief executive, Charles Hoffman, and chief financial officer, Mark Richman, recently bought $63,000 worth of Covad shares, even though they already have plenty of stock options.

—Phyllis Berman

Extra, Extra

Newspapers are not a growth business, to say the least. But **E.W. SCRIPPS (99, SSP)** is growing faster than its peers. Reason: Scripps is better diversified into other media. Now just a third of its revenues come from papers. Scripps owns cable and satellite operations, including the Food Network and Home & Garden Television, both of which in 2004's first half had 54% earnings growth. One of Scripps' cable startups, Do It Yourself, could be profitable next year.

For the first half Scripps' earnings rose 34% to $157 million on revenue of $1 billion. William H. Thomas, head of North American equities at Baring Asset Management, believes more growth lies ahead. The potential, he says, outweighs Scripps' pricey multiple, 30 times trailing earnings.

—Allison Fass

Euro Mall

Real estate investment trusts have held their own in a shaky 2004 market. One relative laggard is mall owner **MILLS CORP. (45, MLS)**, whose stock has risen 3.6% this year, versus an average 6.8% for shopping mall REITs. For the first half Mills' funds from operations (roughly, net income plus depreciation) rose by 19% to $114 million on $191 million revenue. Mills trades at 11 times FFO, in line with the mall sector.

The market doesn't get Mills' promising push into Europe, where it faces little competition and aims to have a third of its properties in five years. Its first such project, Madrid Xanadu, is a success (97% leased) with nightclubs and Spain's only indoor ski dome. Matthew Ostrower, a Morgan Stanley analyst, says Mills has strong local partners needed to gain government okays.

—Patricia Huang

Obsolete

AVOCENT (27, AVCT) is by far the market leader in KVM (keyboard, video, monitor) devices, which allow technicians to run multiple servers using a single computer terminal. Avocent has outsize gross margins (58%) on this stuff. In the first half sales rose 23% to $174 million, though it lost $5 million due to an acquisitions-related charge. The stock's multiple: 73.

But KVM functions now are being embedded in software. Avocent says that's no problem because it also makes this software, whose margins are even higher (80% to 90%). Still, the new software products sell for $40 per server versus $120 to $220 for KVM gear. In two years Avocent will have a big problem, says Kevin Baldwin of Enterprise Control Systems, which sells Avocent devices. Short the stock; cover at $20.

—Daniel Fisher

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Linda H. Biagioni
Vice President – Environmental Affairs
The Black & Decker Corporation

Stocks for an Iffy Investor

UNSURE OF THE MARKET'S DIRECTION? WHENEVER I'M on edge about the stock market I take comfort in compartmentalizing the possible outcomes. The market can do any of four things: go up a lot, go up a little, go down a little or go down a lot. It's only in the last case that you should really regret not having gone to cash, and the last case occurs only rarely. Returns below 20% have occurred in only 6% of the calendar years since 1925.

Unless I think I see big, bad things others don't see, I can't justify a down-a-lot forecast, since the market is a discounter of all known information. That means that bad stuff we already know (war, deficits, you name it) is already priced into stocks, so you gain nothing by selling. That fact helps explain why I almost always own stocks.

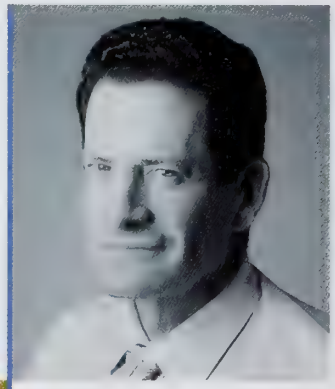
The goodies at J&J include Super Pretzel, Mr. Twister and Barq's Floatz. Buy now, and wait for the low-carb fad to fade.

What should you do if you are persuaded that the market is destined to decline just a little? Nothing. It costs too much (taxes, commissions, price spreads) to move out and in for a brief interval. Remember, too, that a downward blip tends to be over before long. Also remember that you might be wrong. Much more of the time than not, stocks rise. Often they rise when there seems no good reason.

Sometimes I'm wildly bullish, expecting the up-a-lot outcome. That is, I think I see big, good factors others don't see. But again, the only basis for such an extreme view is if you think you see something others don't.

I remain optimistic for a big upward move ahead. Partly it is because economic sentiment is dour, while the economy progresses quite nicely. But just as important, I am bullish because I see a lot of great stocks to buy. This year, with the S&P 500 off 3% since Jan. 1, the bargains have gotten more visible. But even if you are much less sanguine than I, you should be in stocks. Just look for unappreciated quality. That way, if stocks do sour, you are likely to lose less than the market as a whole. If stocks soar, you participate.

What do I mean by quality? Firms that are leaders in their fields. Maybe, because of past problems, profits are down or margins are thin. But if the firm has a competitive advantage, it should be able to turn more of its sales dollars into profit dollars. Signs of market leadership: high market share, prestige customers, lower costs, unique distribution or regional dominance. The four stocks listed below have at least one of these qualities.



Fox Entertainment Group (26, FOX) is an 82%-owned subsidiary of News Corp. Twenty percent of its $12 billion in revenues comes from its cable network programming, which has seven of the ten cable news shows with the biggest audiences, including all of the top five. (FORBES magazine is a content supplier to one Fox News show.) Fox Entertainment is also Twentieth Century Fox, *American Idol*, Super Bowl and World Series coverage. It is superstrong with the 18- to 49-year-olds so coveted by advertisers. Its 34% ownership of DirecTV Group is worth a third of its $24 billion market capitalization. As the newcomer network Fox does not yet command the same ad rates (per thousand viewers) that its rivals do, but I see a positive here—a potential for profit improvement as it narrows the gap. You can buy Fox Entertainment at 1.3 times book value and 17 times expected 2004 earnings.

Or, take a bite of **J&J Snack Foods (38, JJSF)**. It makes and markets a wide variety of branded snacks and beverages through a vast array of high-traffic locations like Wal-Mart, Target, 7-Eleven and movie theaters. (Among the goodies: Minute Maid, the Super Pretzel, Mr. Twister and Barq's Floatz.) When the low-carb dieting fad fades—maybe next year—J&J will get a boost. This one, too, goes for 17 times 2004 earnings. It's also cheap, at 0.9 times annual revenue.

CBRL (32, CBRL) is the Cracker Barrel chain plus Logan's Roadhouse. Between its two very different family-style thematic restaurant chains it has 600 locations spanning America. CBRL is well run, diverse, faster growing and more profitable than the average restaurant chain. At 0.7 times revenue and 14 times this year's earnings, CBRL is cheap for a restaurant stock.

Finally, **Scholastic Corp. (27, SCHL)** is cheaper still, if you consider that its price/sales ratio of 0.5 is less than a third the print publishing industry average. Why the weakness on Wall Street, given Scholastic's stronghold on the children's book business? Two things have depressed earnings and thus the stock: revenue shortfalls and excess costs. The cost problem is largely fixed. With a turnaround largely in place, a strong franchise and premium print names like the Harry Potter and Shrek franchises, plus more than 600 other new books, I expect credibility to return in 2005—and with it a stock that makes for fun reading. F

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Kenneth L. Fisher is a Woodside, Calif.-based money manager. Visit his home page at **www.forbes.com/fisher.**

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Money Out of a Pipeline

MARTHA AND THE VANDELLAS RECORDED A 1965 Motown classic that began: "Nowhere to run to, baby/Nowhere to hide." With the stock and bond markets not going much of anywhere, you may despair of finding any good liquid investment for your cash. Of course, you can tie up your money for long periods with hedge funds and their ilk, hoping for decent returns. But there are some good alternatives, particularly in the energy sector. In this issue, fellow columnist Richard Lehmann discusses royalty trusts, which focus on oil and gas extraction *(see p. 206)*.

For me, a good place for investment truffle hunters to start sniffing is the field of master limited partnerships, which have the twin advantages of high yields and tax benefits. These publicly traded securities are mostly concentrated in fuel storage and pipelines. Energy price zigzags don't affect MLPs much. They earn their money from the volume of oil and gas they handle. With growing demand and insufficient infrastructure for it, MLPs have big growth in their future.

Master limited partnerships in energy are a good place to be during this market funk. They offer good yields, tax breaks and strong growth potential.

For the time being, however, you wouldn't know that. Because people buy them for the fat yields, MLPs are unjustifiably tainted by the Federal Reserve's rate-tightening. Even though the cost of borrowing money has just a small impact on their performance, MLPs are down 3% in 2004. This spells a buying opportunity.

MLPs have shown superb appreciation over time. Since 1998 an index of MLPs created by Jerry V. Swank of the Cushing Fund has measured a 14.7% annual return versus 2.1% for the S&P 500 and 5.3% for the ten-year Treasury. And Swank found the MLPs weren't correlated to the S&P or any other major securities index, meaning the broader market has a limited effect on them. So they are a good way to diversify. Further, fads among institutional investors aren't a factor since the big boys steer clear of MLPs. Open-end mutual funds are legally barred from buying them and pension plans fear that such a tax-advantaged investment would queer the plans' tax-exempt status.

Yielding between 6% and 8%, MLPs have a nice spread over ten-year Treasurys at 4.2%. Further, MLPs handily outyield the energy titans such as ExxonMobil (2.4%). The reason is that MLPs are exempt from corporate taxes and pass through almost all their distributable cash flow to investors. And the grace note

is the MLP tax treatment.

Typically only 10% to 20% of an MLP distribution is currently taxable (at up to 35%). The reason: Because of the heavy depreciation charges these outfits can claim on their tax returns, the IRS views a large part of their payouts as a return of capital rather than as taxable income. The return of capital lowers your tax basis in the stock and thus raises your capital gain down the road. In the meantime, you enjoy largely untaxed income. The downside is the complexity of your tax return. Attaching a K-1 form to your tax return is a hassle. And depending on how the MLP deals with depreciation, you could get thrown into the harrowing alternative minimum tax.

Another caution: the hefty MLP management rake-off. Managers, who own a chunk of MLP shares and thus get the same nice dividends you do, also are entitled to increasing payouts as the distribution increases. Their take can reach as high as 50%. The idea is to motivate management to expand the business. Thus far the motivation has worked. Dividends have been going up.

Kinder Morgan Energy Partners (43, KMP) recently announced its twentieth distribution increase since the MLP's 1997 launch, a 9% hike for the second quarter over the prior-year period. The largest of the publicly traded MLPs, it yields a nice 6.6%. The Kinder Morgan partnership has pipelines carrying natural gas, crude oil and carbon dioxide. For 2004's first half it logged an impressive 14% earnings increase, to $387 million on $3.8 billion revenue. Absurdly, the price this year has slid 11%.

Energy Transfer Partners (41, ETP), the product of a February merger between natural gas shipper Energy Transfer and Heritage Propane, has seen a flat stock price this year. Its 7.2% yield reflects the vulnerability of the propane business to the weather. Since the merger the MLP has made several helpful acquisitions, such as KeySpan's propane business.

Finally, there are two new closed-end funds, **Tortoise Energy Infrastructure (24, TYG)** and **Energy Income & Growth Fund (20, FEN)**, recently formed to invest solely in MLPs. These funds are C corporations; they pay state corporate taxes and are therefore free from the qualifying income rules. Their advantage is that they eliminate the tax headaches of filing K-1s. But they are too young to have a track record. F

Forbes | Lisa W. Hess is a New York money manager. Visit her home page at www.forbes.com/hess.

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Northern Exposure

ROYALTY TRUSTS FOR NATURAL RESOURCES CAN BE fine investments, liquid securities that trade like stocks and give you double-digit yields and some tax breaks to boot. The most common are in oil and gas (coal and timber account for much of the rest), and their volatile prices discourage some investors—unlike energy master limited partnerships, a steadier infrastructure play *(see p. 204)*. The best of these energy trusts are from Canada.

In the U.S. a royalty trust is a financing entity that holds the extraction rights for resources, although not the acreage they're drawn from. Like real estate investment trusts, royalty trusts aren't taxed at the corporate level if they pass most of their earnings on to investors by way of dividends, usually paid monthly. To maintain the trusts' tax-free status, their managers aren't allowed to issue fresh debt or equity. That crimps their ability to add to reserves.

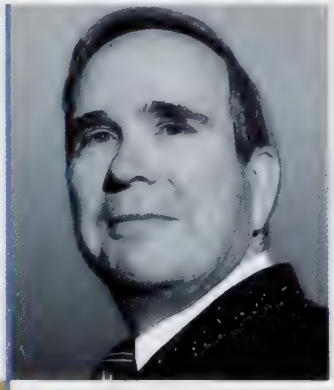
Another way to play the energy sector is to buy energy trusts from Canada, which pay lush dividends and are superior to their American cousins.

The upshot is that the reserves tend to shrink and the value of your investment constantly declines. Reflecting this depletion of the assets, tax law treats a portion of each year's distributions as a return of capital not subject to income tax. (The amount of capital returned simply reduces your cost, or "basis," for the purpose of determining the capital gain or loss if you sell.)

Canadian energy trusts are a better deal. Unlike their U.S. cousins, Canadian trusts can issue more shares and use debt to acquire production properties. They can be exploration and operating companies, not just passive royalty trusts. Thus, a well-managed trust may well exist in perpetuity. Like the U.S. variety, the Canadian trust pays no corporate income tax. It passes through income to its unit holders. As in the U.S., a portion of the payout is considered partly a return of capital.

Now here comes the beauty part: The Canadian trusts are treated as corporations whose dividends are eligible for the favored 15% dividend tax rate in the U.S. This notwithstanding the flow-through income, which is absent of corporate income tax. A U.S. investor pays a special (not available to Canadians) 15% withholding tax to Canada but can get a full credit for this sum against his U.S. income tax bill. Hence, your dividend is effectively tax free.

Certainly, the wonderfully high trust dividend yields, ranging from 10% to 14%, remind you that you're being paid for taking on considerable risk. The risk is that now-high energy prices will plunge, as they have done in the past, causing a decline in the dividend. If the trust is leveraged, the percentage cut in your dividend can exceed the percentage cut in the price of oil.



But if you think oil prices will stay fairly high, these trusts are extremely attractive. They are a good way to balance out a portfolio heavy in interest-rate-sensitive bonds. High inflation, if it comes back, can kill your bonds but should not affect these natural resource plays except to drive energy prices even higher.

There are many energy trusts listed on Canadian exchanges and sold over-the-counter here. A few are listed on the New York and American exchanges. Two I recommend are **Provident Energy Trust (8, PVX)** and **Petrofund Energy Trust (12, PTF)**, both on the Amex. Dividends, net of the Canadian tax, are paid in U.S. currency and subject to exchange-rate fluctuations.

Provident, yielding 13.8%, is a full-fledged oil and gas production company with ownership in wells and pipelines. Production is 42% natural gas and the rest in various grades of oil. Proven reserves total 8.3 years of production, but this figure will rise. Most of the trust's growth comes from acquiring new reserves. The company just added new fields with an expected life of 22 years. Last year's dividend allowed for 41% to be treated as a return of capital. Thus, the 15% tax applied to only 59% of the payout.

Petrofund, which yields 14%, has proven reserves also equal to 8.3 years of current output. It, too, is acquiring new properties. A sixth of last year's dividend was a return of capital. Both trusts borrow heavily. Provident is bolder on this score, with a 1:1 debt/equity ratio.

The price of oil is up 33% since January, to $45 a barrel. Wall Street is evidently skeptical that such prices will last: Provident's price is down 9% since the beginning of 2004, Petrofund's down 20%. An additional risk is that either Canadian or U.S. tax authorities will crack down on this loophole.

There is a proposal in Canada to limit foreign ownership of shares to 50%, aiming to bring in higher tax revenues from Canadians, who pay ordinary-income rates on royalty trust dividends. But such a curb would only help prices for trust shares traded in the U.S. F

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Richard Lehmann is editor of the *Forbes/Lehmann Income Securities Investor*. Visit his home page at **www.forbes.com/lehmann.**

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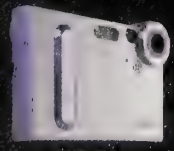

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The new way to fight deadly tumors is to gum up their many growth engines, in several ways, all at once | BY ROBERT LANGRETH

EARLY LAST YEAR 61-YEAR-OLD JUDY NORRIS WAS READY to stop all treatment and let her cancer run its course. Her kidney tumor, diagnosed in 1997, had spread to her abdomen, pancreas and both lungs. Six months of treatment with toxic interleukin-2, one of the only treatments for advanced kidney cancer, had eroded nerves in her hands and feet, caused frequent vomiting and made her skin peel all over—but did nothing to slow the tumors' relentless growth. In June, in a last-ditch effort to save her life, her oncologist recommended an experimental pill from Pfizer called SU11248. The Fallbrook, Calif. nurse hesitated, fearing that the side effects would be worse than the disease. "I thought maybe I should let go, and let God take over," she says.

But her husband prevailed on her to give it a try. Within weeks her energy began to return. Her tumors began to shrink; they're now 60% smaller. Still on the drug today, Norris recently hired a personal trainer to help her get in shape. "I may never be cured, but my cancer is controlled and I can live a normal life," she says.

Norris is one of the first patients to benefit from a generation of highly targeted treatments that promise to reverse cancer's growth in a powerful and new way. These drugs, several of which are wending their way through human testing at Pfizer, Bayer, GlaxoSmithkline and other firms, are like Swiss Army knives, with molecular structures versatile enough to deactivate two, three or even four tumor-promoting proteins at once. The idea would be to treat cancer the same way doctors now fight lethal bacterial infections, hitting cancer cells early with the equivalent of multiple antibiotics.

Just a few years ago researchers had naively hoped that they could design a drug to blast a single cancer-causing protein and send the disease into remission for years without forcing the patient to endure the side effects of prolonged toxic chemotherapy. This designer approach resulted in one big winner, Novartis' Gleevec for chronic myelogenous leukemia and a rare stomach tumor called GIST.

But Gleevec turned out to be an exception. Two other designer drugs, AstraZeneca's Iressa (for lung cancer) and ImClone Systems' Erbitux (for colon cancer), are showing far more modest results. Iressa shrinks tumors in only 10% of lung cancer patients. Erbitux delays cancer's progress by roughly three months.

These drugs have a numbers problem. Most solid tumors of the colon, lung, breast, prostate and pancreas have a slew of defective genes propelling their rapid growth. Under the microscope "it looks like a small bomb went off in the nucleus," says George Demetri, an oncologist at the Dana-Farber Cancer Institute in Boston.

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Combination Therapy

Existing designer drugs that hit a single bad protein mostly have had modest results in holding back tumors. Drug firms hope that attacking multiple bad genes simultaneously will have a more powerful impact.

COMPANY	DRUG	MOLECULAR TARGETS	CLINICAL TRIAL STATUS
Bayer and Onyx Pharmaceuticals	BAY 43-9006	Blocks two receptors involved in blood vessel growth and a third that stimulates cancer cell growth	Final-stage for kidney cancer; midstage for melanoma
Pfizer	SU11248	Blocks two blood vessel growth receptors and two cancer growth proteins	Final-stage for kidney cancer and gastrointestinal stromal tumor
Genentech	Avastin-Tarceva combination	Avastin blocks new blood vessel formation; Tarceva blocks cancer growth messenger	Midstage for lung, kidney cancers
GlaxoSmithkline	Lapatinib	Blocks growth receptor and another tumor-promoting protein	Final-stage for breast cancer
Wyeth	CCI-779	Blocks mTOR, a central controller of cell growth proteins	Final-stage for breast, kidney cancers

Sources: Companies; Forbes.

Attacking one bad gene won't halt these tumors' growth for long. "Common cancers have multiple gas pedals. The key is to gum up as many as possible. That's where we are all headed in cancer therapy," says Demetri, who is testing Pfizer's SU11248 in certain digestive tract tumors.

The reason the Swiss Army knife approach could prove more effective is that many of the growth-promoting proteins involved in cancer are kinases, proteins that relay signals from one part of the cell to another. There are 500 kinases, and at least 24 are being targeted as cancer culprits. Because kinases have similar chemical structures, a single thoughtfully designed chemical can gum up more than one, taking away the cancer cells' ability to nourish themselves and divide. A competing approach is simply to combine two or more existing single-target drugs.

So far the drugs have shown early promise against tumors of the breast, lung and skin. GlaxoSmithkline recently reported that its dual-mechanism drug lapatinib shrank or stabilized tumors in 19 of 41 breast cancer patients who had failed treatment with Genentech's drug Herceptin; the compound is now in final-stage trials. In late June Merck signed a deal worth up to $350 million for biotech Vertex Pharmaceuticals to test a compound called VX-680 that blocks two crucial kinases, one of which is overabundant in colon and breast tumors.

The most welcome news has come from kidney cancer trials. Tumors are almost always fatal when they spread beyond the kidney, as they do in one-third to one-half of the 31,000 Americans diagnosed with kidney cancer each year. The best treatments up to now, interleukin-2 or interferon-alpha, help only 15% of patients. Now all of a sudden several different regimens have moved into late-stage trials after showing early promise, including Pfizer's SU11248 and a drug being jointly developed by Germany's Bayer and Onyx Pharmaceuticals in California. Both drugs attack tumors with a flanking action, separately blocking two receptors crucial for blood vessel growth (vascular endothelial growth factor receptor) and nourishment (platelet-derived growth factor receptor).

In June oncologist Robert Motzer of New York's Memorial Sloan-Kettering Cancer Center reported that SU11248 dramatically shrank tumors in 33% of 63 kidney cancer patients tested (including Judy Norris) and halted tumor growth in another 37%. At the same meeting Bayer and Onyx said their drug caused at least some tumor shrinkage in 42% of 89 kidney patients tested. "We've not seen results like these before," says Cleveland Clinic kidney cancer specialist Ronald Bukowski, who has tested the Onyx drug. In midstage trials Genentech reported promising results against solid kidney tumors using a combination of its colon cancer drug, Avastin, and another targeted agent, Tarceva. One or more of these kidney regimens could be on the market in two to three years.

"WE'VE NOT SEEN RESULTS LIKE THESE BEFORE."

Even if the new multiwarhead drugs do work, tumors may eventually become resistant, forcing researchers back to the drawing board. Determining which targeted agents to test on which patients is still a matter of educated guesswork: There are so many bad genes involved that researchers are only beginning to determine which are the most crucial to hit. Says Pfizer cancer research head Michael Morin: "It's an exciting time to be in cancer research. But cancer is so complicated that it makes the Apollo moon landing seem like building a model airplane." F

Hedge Funds

With his own hands (and wallet), a corporate lawyer builds his ideal garden: like Eden, but with a conference room.

BY SUSAN ADAMS

PHOTOGRAPHS BY DIANE COOK AND LEN JENSHEL FOR FORBES

IT'S NOT AS IF FREDERIC C. RICH LACKS FOR MENTAL CHALLENGE. WHEN NOT RUNNING THE PROJECT finance group at New York law firm Sullivan & Cromwell, where he oversees multibillion-dollar pipeline ventures in Azerbaijan and Papua New Guinea, Rich, 48, writes novels (two, unpublished), composes music (an oratorio performed by members of the Juilliard Orchestra) and dabbles in architecture. His weekend home, on 12 verdant acres in Garrison, N.Y., near West Point, is largely of his own design. Yet he insists one of his most satisfying mental workouts comes from gardening.

Like lawyering, gardening allows him, he says, to be "very anal, to overwork things." A computerized, 48-zone irrigation system, programmed by Rich, tends to the 1,200 different species he has planted. Azaleas and rhododendrons have shallow roots that dry quickly and require early evening dousings five days a week. Phlox, by contrast, is prone to mildew and must be watered no more than twice a week, between 4:30 and 6:00 a.m.

In Rich's quirky private Eden, each living thing has been chosen to achieve some deliberate end, including the manipulation of a visitor's or business associate's mood. The property is divided into "rooms"—spaces artfully delineated by hedges or other natural barriers. A sacred grove with drip fountain and Buddhist prayer gong (ordered from a religious supply house in Baltimore) is designed, for example, to inspire contemplation. Elsewhere an Adirondack chair placed strategically along a tree-lined brook turns the mind to poetry—or so Rich believes. He insists that any guest who stays overnight must sit here long enough to compose a haiku.

This fascination with outdoor rooms stems from Rich's boyhood. He grew up on a property in northern New Jersey said to have had remnants of a once-great garden designed by Beatrix Farrand for one of J.P. Morgan's daughters. Farrand, among America's first great female landscape architects, also designed Dumbarton Oaks in Washington, D.C. and portions of the campuses of Yale and Princeton. Her designs feature small enclaves set within a larger whole.

Rooms with a view: Fred Rich's outdoor paradise has more than a dozen garden rooms, including the conference room *(top right)*, and the sacred grove *(below right)*, with Buddhist prayer gong.

Contemplation centers: Rich likes to linger in his Temple of Antaeus, a pseudo-Grecian structure overlooking the Hudson *(top)*, or next to the pond *(below left)*. The gardener in his Eden *(below right)*.

To anyone strolling from Rich's woodland garden, chock-full of native American plants like trillium and lungwort, into his fern glen lush with nonnative varieties like exotic ladyferns, the vegetation seems utterly natural, as though Rich had only to yank a few weeds. In reality the garden is the result of 15 years of hard physical labor—almost all of it Rich's own—and an estimated $150,000 in expenditures on plants and materials. Rich likens the countless hours of research required to solve problems of garden design to what would have been demanded of him by the most daunting international finance problem. For solutions he repairs to a two-story, book-lined octagonal tower (designed by him, of course) in his home that contains hundreds of volumes, including such recondite titles as *Secret Teachings in the Art of Japanese Gardens* and *Thomas Jefferson's Garden Book*.

The puzzle of what to plant where is what most engages him. On one portion of his property he needed an exceptionally sturdy boxwood hedge. English boxwood would have been the easy, obvious choice. But since English boxwood needs to be burlap-wrapped in winter, Rich rejected it as too bothersome. After many hours combing through books and catalogs, he finally came upon Siberian boxwood, whose name suggests its greater hardihood. The variety was all but unknown in the Northeast at the time he planted it.

Rich calls in workmen only occasionally, for projects like moving boulders or installing an 8-foot-high fence to keep out deer. Otherwise he prefers to do the work himself, calling it a salve for the many hours he must spend at his Wall Street desk. When he bought the Garrison property in 1989, he recalls, he was ready to crack from the heavy demands of his law practice: "Unless I had some physical outlet, I couldn't have kept going professionally." Gardening even fixed what he calls his aching, Wall Street-lawyer back. "I built stone walls and I lugged around logs. It was the perfect antidote."

The garden's least-expected feature is easily its outdoor conference room, designed to accommodate a 10-foot-diameter table hewn from New York State bluestone. Around it sit 12 ergonomic chairs made of cedar. Here Rich occasionally invites colleagues

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Planting the First Seed

Fred Rich's advice is to start small: "Don't try to plan the whole thing at once." Fall and winter are fine times to discover the essential qualities of your land and what you might want your space to look like. Next, take a patch and clear out undesirable vegetation.

Step three is research. Good Web sites for beginners are those of the White Flower Farm, a high-end Litchfield, Conn. vendor of plants and bulbs, and Wayside Gardens of Hodges, S.C. More advanced gardeners should check out Forest Farm in Williams, Ore.

For $80, you can get *The American Horticultural Society A-Z Encyclopedia of Garden Plants*, a 1,104-page compendium of flowers and trees with color pictures and hardiness zones. You can get some of the same information for free from plants.usda.gov.

Choose plants likely to do well in your region and soil type, and consider whether you're planting in shade or on a slope. You can ask a nursery for advice on which flowers are native to your part of the country. The Pacific Rim Native Plant Nursery in Chilliwack, B.C., for example, sells mostly plants native to the Pacific Northwest.

Another great resource: university horticultural departments. Rich likes Cornell's, at cce.cornell.edu/programs/hort/gardening. —*S.A.*

from Sullivan & Cromwell or members of the boards of the several civic and cultural institutions with which he is involved.

Those who have spent time in the outdoor room attest to its power to inspire. At a 1997 meeting of the Scenic Hudson Land Trust, a conservation organization of which Rich is chairman, members were considering various proposals for developing a 23-acre waterfront site in nearby Beacon that the trust had purchased. Had the meeting taken place in a more conventional setting, the group might well have settled for a conventional retail and residential plan. Here, however, was born an ambitious plan that included an environmentally friendly hotel and an expansive public area complemented by a 290,000-square-foot contemporary art museum. Says Scenic Hudson Executive Director Steven E. Rosenberg, "Fred's room generated a more inspired kind of thinking than would the fluorescent lights of a city conference room." F

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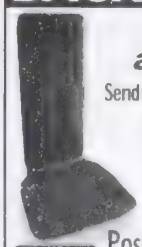

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—MALCOLM S. FORBES (1981)

The national dish of Scotland is something called haggis, the specific ingredients of which I won't go into other than to say that if you can visualize boiled, inside-out road kill, you're pretty close.

—DAVID GRIMES

It is never difficult to distinguish between a Scotsman with a grievance and a ray of sunshine.

—P.G. WODEHOUSE

They christened their game golf because they were Scottish and revelled in meaningless Celtic noises in the back of the throat.

—STEPHEN FRY

It requires a surgical operation to get a joke well into a Scotch understanding.

—SYDNEY SMITH

Whenever someone asks me if I want water with my Scotch, I say I'm thirsty, not dirty.

—JOE E. LEWIS

Scotland, thank God, is not for everyone.

—ROBIN DOUGLAS-HOME

I've sometimes thought that the difference between us and the English is that the Scotch are hard in all other respects but soft with women, and the English are hard with women but soft in all other respects.

—J.M. BARRIE

We are Boston, Glasgow is Cleveland.

—JOHN MCKAY, LORD PROVOST OF EDINBURGH

I had occasion, not for the first time, to thank heaven for that state of mind which cartographers seek to define as Scotland.

—CLAUD COCKBURN

Beautiful, glorious Scotland, has spoilt me for every other country!

—MARY TODD LINCOLN

The Scot will not fight until he sees his own blood.

—WALTER SCOTT

The "second sight" possessed by the Highlanders in Scotland is actually a foreknowledge of future events. I believe they possess this gift because they don't wear trousers.

—G.C. LICHTENBERG

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In all labor there is profit: but the talk of the lips tendeth only to penury.

—PROVERBS 14:23

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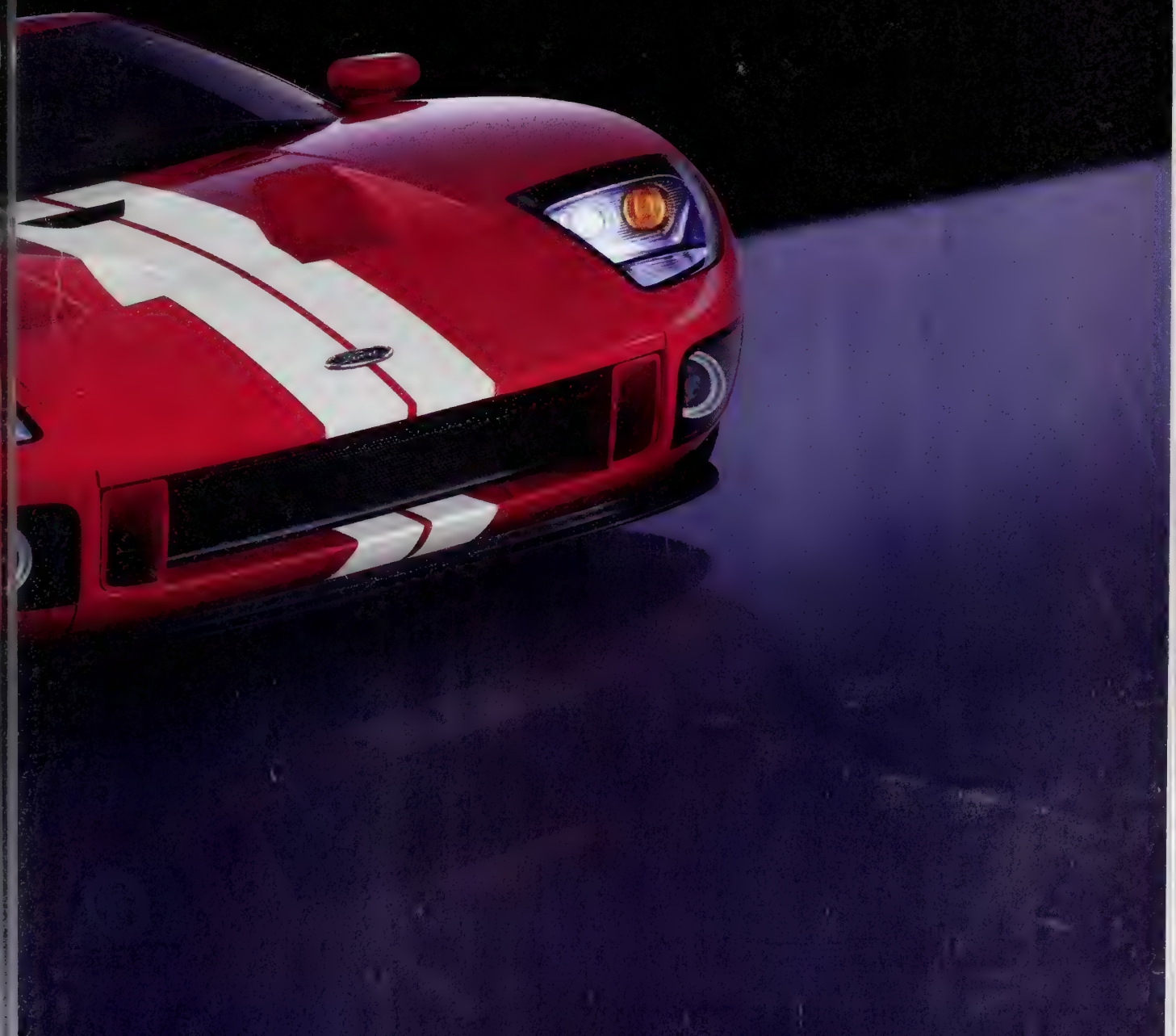

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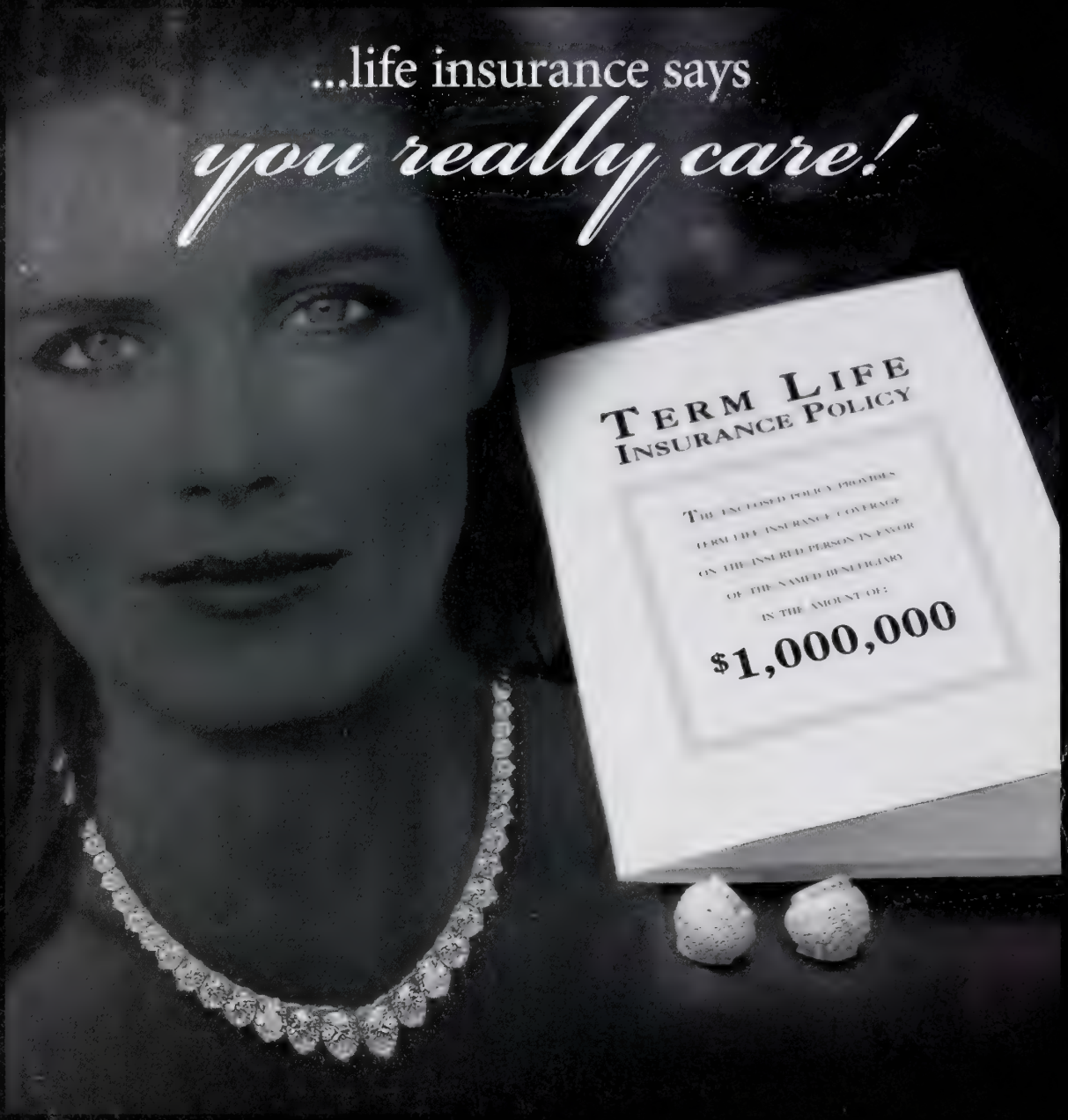

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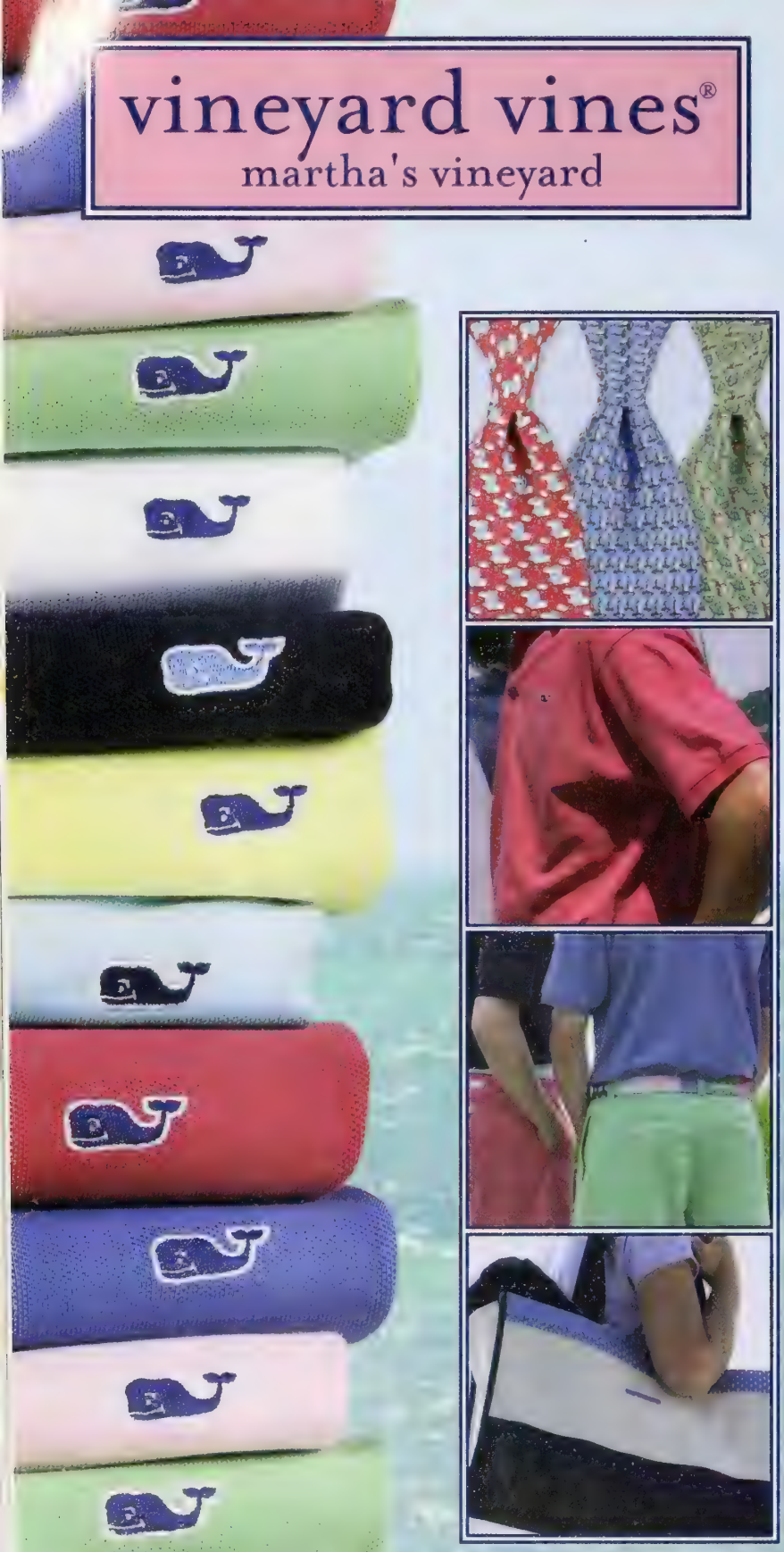

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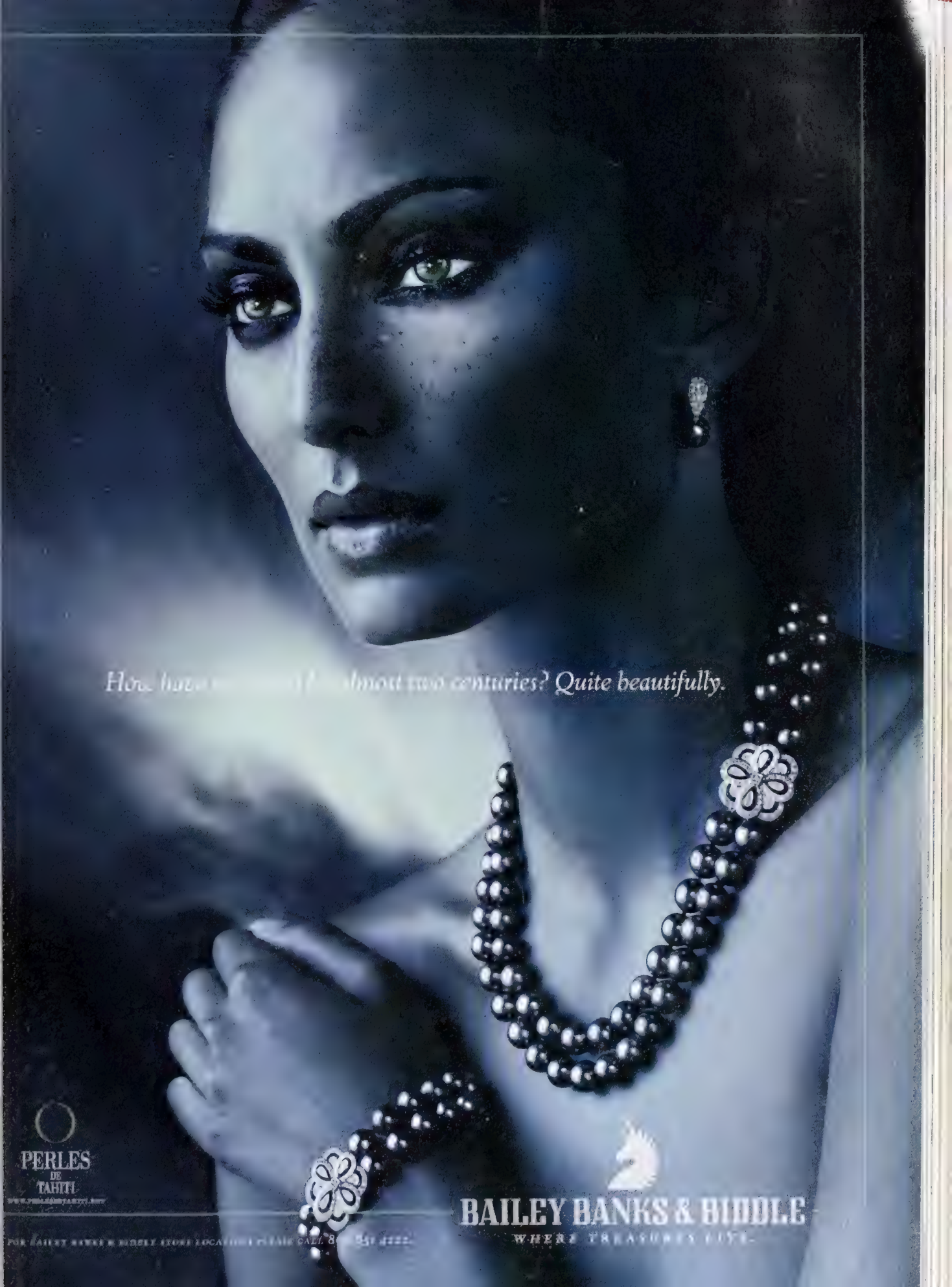
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REAR WINDOW

ROBERT R. ECKER HAS BEEN DECLARED "INGENIOUS" AND A "FIND" BY *THE NEW YO Times,* and a painter whose "works gleam with wit and art historical reference" by t *Rocky Mountain News.* His mysterious, precisely drafted works grace collections from t Smithsonian to the Denver Art Museum. But this former, longtime professor at t University of Colorado remains somehow below the threshold of popular recognition (a big-name pricing). Many of Ecker's recent paintings are playful acrylic-on-wood, *trom l'oeil* "windows" that look out onto dreamlike scenes with suggestions of Edward Hopp or Joseph Cornell or Renaissance masters, with objects on the "sills"—a dripping pa can, a pair of eyeglasses—that bring the viewer back to the more mundane but even mo elusive matter of the illusion's creator. *Robert R. Ecker at the Charlene Cody Gallery, Sar Fe, (800) 752-1343; www.charlenecodygallery.com.*

Eater's Digest

David Rosengarten's The Rosengarten Report is not the easiest foodie/wine-nut newsletter to swallow—it's type-packed, sardined margin-to-margin with THE BEST TOMATO JUICE MONEY CAN BUY!, or THE GREATEST FRENCH CHEF OF THE 20TH CENTURY IS BACK IN BUSINESS! or EVERY IMAGINABLE BRUNCH TREAT!!! (he means it, too). But then, even at the height of his Food Network fame—at one point he seemed to have co-opted the entire channel—the erudite Rosengarten was always a print guy first. Precious few TV foofs could write as authoritatively about wine, food and insider restaurant-world scoop as Rosengarten, and few have their hearts so firmly in the right place: "I LOVE to believe that fancy, obnoxiously, relentlessly creative, big-deal, high-concept Chef Food is finally in a tailspin....REAL FOOD: BRING IT ON!" *The Rosengarten Report, 1 year/10 issues, $39.95. (703) 394-4931, www.davidrosengarten.com.*

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The Money Shots

One of the troubles with point-and-shoo digital cameras is the delay betwee pictures. You take one shot, then have to wait a few precious momen before firing off another. Epson's new 4-megapixel PhotoPC L-410 overcomes that irritation with a nifty function called "continuou shoot mode." It allows you to take up to three picture per second, even at full resolution, so you'll never miss a decisive moment again. *$400. www.epson.co*

Corporate Raiders

MICHAEL DRAKE'S TIES SEEM UTTERLY CONSERVATIV until you notice the embroidered skulls, bleeding hearts and other tattoo motifs. Tie one on, and hint at the rebel within. *$105, at Barneys New York, New York and Beverly Hills, (888) 8-BARNEYS.*

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UNCOMMON SCENTS

WHAT'S GOOD ENOUGH FOR HER IS GOOD ENOUGH FOR him. Salvatore Ferragamo has launched Incanto Pour Homme, a Y-chromosome version of its successful Incanto fragrance. Redolent of cypress and cedar, but with exotic Asian base notes of sandalwood, vetiver and musk, the scent is masculine, not macho. *3.4 oz., $75. Available at Saks Fifth Avenue, Nordstrom, Lord & Taylor and Ferragamo boutiques.*

A Touch of Mink

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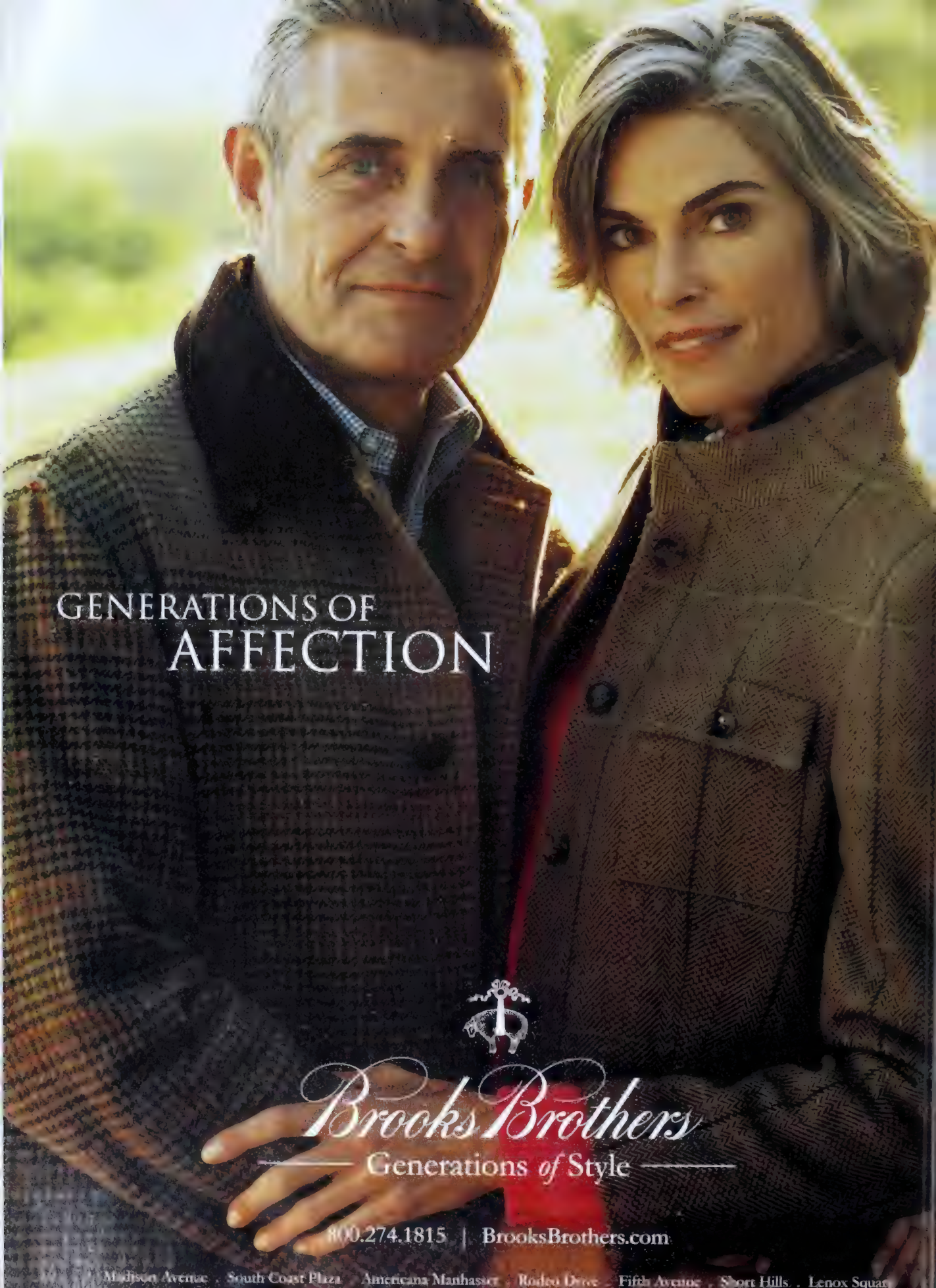
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END USER

FOR MOST OF THE PAST TWO centuries, artisans at the Forge de Laguiole in southern France have been handcrafting curved knives from woods such as ebony, juniper and thuya—as well as cow bone and cow horn. In the past year, the company has introduced a line of cigar cutters, pipe tools, golf knives and letter openers designed in its traditional style—with engravings at the base of the blade and a curved tail—which are sold through Euroblade, Evergreen, CO. *Shown here: Boxwood-handled cigar cutter, $205. Euroblade, (800) 706-0183.*

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And the Bronze Goes to..

The new Nextel Motoro i830 is one of the smallest walkie-talkie phones on the planet. It has GPS capability, speaker phone, a 65,000-color scree and JAVA MIDP 2.0, which allows it to run multiple applications at once. But really, the best thing about this phone is its hip bronze exterior. Function, after all, isn't everything. *$250.*

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BLACK IS THE NEW black, the old black, the only black—and titanium makes for frames that are supermodel-thin. *Sunglasses, $325, by Robert Marc, at Robert Marc boutiques, New York and Boston, (212) 319-2000, www.robertmarc.com.*

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Fall Cocoon Edition

NOVICA.COM OFFERS GOOD KARMA along with its astonishing range of high-quality decor items, from Peruvian religious oil paintings to West African carvings to Balinese hammocks. In association with *National Geographic*, Novica directly represents 1,700 artists and artisans in the developing world on a website (Novica also sells through eBay) that features photographs and interviews with the creators themselves.

Sometimes a gardening store, especially a self-avowedly eccentric one like San Francisco's Paxton Gate, can outgrow its confines, its category, its ability to be simply explained. Now in much larger brick-and-mortar quarters at 824 Valencia Street, and with its website (paxton-gate.com) under construction, Paxton Gate is your one-stop resource for handsomely stuffed and mounted cane toads, gleaming Japanese garden shears, "odd and exotic" bromeliads, and antique architectural elements. That's just for starters.

If you absolutely must do-it-yourself, but are clueless as to how, Bozzle.com has your back—not to mention your living room. A trove of free interior-design articles, how-tos (everything fro hanging wallpaper to producing designery paint effects) and dozens of links to other learning and supplier sites, Bozzle is a fine place to while away a dreamy afternoon without hitting a lick on your renovations.

Everything else has a "super store" on the Web—why not claw-foot bathtubs? Can't find that classic roll-rim of your dreams? That elusive double-ended slipper? Vintage Tub & Bath (vintagetub.com) has mode versions of all of the above and more more more, including an ent line in very nonvintage acrylic.

Get wind of what's up in European design at Vincon.com, a kind of Conran's crossed with Williams-Sonoma based in Barcelona. The overall design feel is spare and sleek, but ever category—from Children to Offic & Stationery to Kitchenware—has its elements of surprise and whimsy, not to mention stuff you haven't seen anywhere else.

PERINI TENDERLOIN

We came across the Perini Ranch Steakhouse's mesquite-smoked, peppered beef at a high-toned fête where the buffet line kept backing up and stalling in front of these spicy, medium-rare slices of tenderloin direct from Buffalo Gap, Texas. Even a very proper Parisian lady of our acquaintance—who rarely admits to a weakness for things American—was spotted sneaking back for thirds. Slow-roasted and smoked, the tenderloins are flash-frozen and vacuum-packed (each pack yields about 30 to 40 thin-sliced medallions), and recover their subtly seductive depth of flavor when served at room temperature. At $88 for a 2 to 2 1/2 lb. package, you've got to think mighty highly of your guests to lay these beauties out, because they won't stop eating until you have to reorder. *Perini Ranch Steakhouse, (800) 367-1721, www.periniranch.com.*

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Milan oasis: the Bulgari

EYES ONLY

Bulgari Hotel Milano, $685–$4,275. Via Privata Fratelli Gabba 7/b, 20121 Milano, 39-02-805-8051, www.bulgarihotels.com.

TALY

ilan: Unlike Florence, Rome or Venice, Milan is not a beautiful city. Many of its buildings seem to n their backs on the street, protecting interior spaces meant for private use. So it's no surprise that, while e new **BULGARI HOTEL MILANO** commands a prime spot in one of the busiest central neighborhoods—the era quarter—the casual passerby will never see it, tucked discreetly into the gardens of a former monastery hind high walls on the gated Via Privata Fratelli Gabba. The location is decidedly urban—within lking distance of the Duomo, La Scala, the Brera Gallery and the shopping mecca of the Golden adrangle—but the Bulgari Milano manages to shimmer like a cool green peridot in its city setting. »

Liberace luxe at Prestonfield

Bulgari, of course, is the grand Italian jewelry house—think Richard Burt wooing Elizabeth Taylor. The opening of the Hotel Milano is, Bulgari hopes, t beginning of a less tempestuous relationship: a partnership with Ritz-Carlton produce a brand-extending mini-empire of luxury hotels (the next will open Bali in 2005). If the Milano is any indication, they're off to a smooth start arrived on a sweltering June day within weeks of its opening, and the cool sc of Bulgari's Green Tea fragrance wafting out of the front doors told me imme ately that this was not another dusty "Grand Hotel." There's a freshness to t Milano that's welcoming to travelers—and, as evidenced by the busy lunch, co tail and dinner crowds, to the Milanese themselves. Of course, it was barel month old—no wear-and-tear marred the modernist ground-floor parlor (w matte marble floors and sleek furniture by architects Antonio Citterio a Partners), and vigilant staffers were still managing to keep all surfaces pristi My room (one of just 58) felt like it had been held, unused, just for me, with cloudlike bed dressed in soft beige and white Frette linens; its bleached-oak ba room with both a sexy glass shower and an enormous, black-granite tub; an walk-in closet to die for (perfect for fashion editors in town for the collections, world-class shoppers ready to hit the Via Montenapoleone).

The Milano is definitely a "designer" hotel, with all the good—and bad—that impli Fortunately, there's very little that's bad, and much of that is attributable to growing pains. T room service menu is limited (and something as simple as tea and toast took an hour to arri although a word to the manager meant every further order arrived post-haste). The lig operate on a system of bedside buttons that's tricky to learn—but, once mastered, leaves c wondering why all hotels don't offer the same. And I was surprised that the concierge could fulfill a not-so-last-minute request to see Da Vinci's *Last Supper*. But anyone would love t Philips flat-screen TVs, the fresh fruit delivered daily, and the small but state-of-the-art gy As for the spa, it's a sybarite's delight, featuring an underground pool lined in green-and-g mosaic tiles that cast shimmering reflections around the room (which opens onto an atri leading up to the gardens, and the hotel's excellent indoor-outdoor restaurant). Most mo ings, I had the pool to myself—it was a rare pleasure to enjoy a solitary swim before headi out for another hectic day in Milan.—MARK GRISCHKE

SCOTLAND

Edinburgh: A raft of new, creative hotels have opened in Edinburgh, and others have reinvented and reenergized themselves. One of the city's most closely guarded secrets, previously available only as a setting for private parties and occasional movies, **ONE ROYAL CIRCUS** makes its debut this month as a B&B. What a beauty it is: a perfect Georgian town house, circa 1823, in the heart of New Town. Owners Susan and Mike Gordon spent eight years on the renovations, from the carved plaster of the ceilings to the hand-painted gold leaf that frames the doorways. The result is pure Art Deco/Fred and Ginger fantasy: the curved red velvet Edra couch that dominates the sitting room, the '20s and '30s French advertising posters and the baby grand. (Mike, when prodded, does a fine Cole Porter.)

The five bedrooms, by contrast, are sleek, soothing white on white and contemporary, with cherry built-in closets and Philippe Starck fixtures.

At the other end of the design spectrum is **PRESTONFIELD**, a veteran on the Edinburgh lodging landscape but redone earlier this year by James Thomson, owner of the city's flamboyant Witchery suites above the restaurant of the same name. If One Royal Circus is Astaire, Prestonfield is Liberace, its walls upholstered in brocades and velvets. This, clearly, is not the place to stay if you like simple, clean lines. But if you revel in extravagant over-decoration (such as the dramatic silvered sleigh bed in my suite, 31) and a sense of theater, the place is a lot of fun. Even its setting has drama: a 17th-century mansion on 20 acres a few minutes from the center of town, with, as unpredictable props, a herd of Highland cattle and 12 loud peacocks.

A more harmonious transformation is **THE GLASSHOUSE**, a modern hotel from 2003 that incorporates the facade of the 150-year-old Lady Glenorchy Church into its entrance. This building does a bit of architectural acrobatics, winding its way around and behind a leisure complex in front. The results are spectacular: light-filled rooms courtesy of floor-to-ceiling windows, and a modern roof garden with views of Calton Hill and the Firth of Forth. The design is minimalist but not harsh, with furnishings such as burgundy leather couches, and the most beautiful contemporary bathroom I've seen anywhere, paneled in opaque aqua glass. The best room: 81, an oval-shaped suite with a wrap-around terrace, a fine perch to survey the chan ing milieu. —LAURIE WERN

EYES ONLY

One Royal Circus, $275 per room, $2,100 for the entire house; One Royal Circus, Edinburgh; 44-783-670-2029, www.oneroyalcircus.com. Prestonfield, $360-$460; Priestfield Road, Edinburgh, 44-131-225-7800, fax 44-131-220-4392, www.prestonfield.com; The Glasshouse, $275-$730, 2 Greenside Place, Edinburgh, 44-131-525-8200; fax 44-131-525-8205; www.theetoncollection.com.

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Tom Gleisner and Rob Sitch;
Overlook Press; $14

A faraway land: It's not often that a new travel guide stands out from the pack. But when the country it purports to describe does not actually exist, well, we take notice. **MOLVANIA: A LAND UNTOUCHED BY MODERN DENTISTRY**, is the first in a new series called the Jetlag Travel Guides. It is "a land of contrasts," states the handy, pocket-sized book, "from its rocky, semi-barren hills to its rocky, semi-barren plains." Located somewhere in Eastern Europe, its alluring attractions include phosphate mines, large salt flats and some of the oldest nuclear reactors still operating. Molvanian cuisine, the book states, has "come a long way from the time when you could only find a few greasy, dimly lit and overpriced cafés in the center of Lutenblag [the nation's capital]. Nowadays such establishments have sprung up everywhere throughout the country." Threatened soon from Jetlag Travel: *Let's Go Bongoswana* and *Surviving Moustachistan.*

—THOMAS JACKSON

Interior exotica at The Inn of the Five Graces

SOUTHWEST

EYES ONLY

THE INN OF THE FIVE GRACES, $295–$470. 150 East DeVargas Street, Santa Fe, NM; (505) 992-0957. www.fivegraces.com.

Santa Fe: **THE INN OF THE FIVE GRACES** is tucked away on a side str near the state capitol complex so obscure that even nearby locals seem co fused as to its whereabouts. It is a fitting introduction to the Inn, which is self a hidden treasure. In Santa Fe, a place geared toward bright light and t outdoors, The Five Graces is inward, cool and mysterious, an ongoing mak over of a '50s-ish apartment complex into a kind of sweetly dreamy ca vansary, with Tibetan carvings, kilims, Thai silks and weathered Indian ceili beams. (On one in our room you could make out the scratched graffito RASHI The place began as the brainstorm of Ira Seret, a local purveyor of high-e Southeast Asian furnishings. Purchased at the end of 2002 by the Garr Hotel Group (The Point, The Willcox), the 20-suite (soon to be 24) I has added luxe touches like refrigerators filled from your personal wish l (ours included foie gras, Goldfish and Dr Pepper). Irish general manager

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MIDWEST

Wisconsin: It's not easy finding a weekend getaway in the Midwest, particularly one with superb food, a generous wine list and a requirement that gentlemen wear a jacket to dinner. A rare spot amid the grain silos, however, is **CANOE BAY**. Located on a lonely road a few miles past the bait and tackle shops in Chetek, Wisconsin, this Relais & Châteaux property sits on 280 wooded acres with 12 cottages and a chalet surrounding a small lake. A two-hour drive from Minneapolis—six from Chicago—Canoe Bay is all about nesting. Even though the usual activities like hiking and cross-country skiing are offered, most people are content to read a good book from the ample library. Dinner is served in the inn and features local organic ingredients—something Wisconsin is famous for. Rates start at $310 per night. We opted to stay in the grander Rattenbury cottage ($875), which was designed by a student of Frank Lloyd Wright and features probably the biggest shower in the state of Wisconsin. Edgewood, the resort's newest guesthouse ($1,700), also designed by Rattenbury, is a full-scale dream house for couples that feels like a woodland sanctuary. *Canoe Bay, (715) 924-4594, www.canoebay.com.*

—EVAN MCGLINN

The Rattenbury's inner warmth

Niall Reid is laying on private programs geared to the "Five Graces" theme (the Tibetan co cept of the human senses). One night we had a southwestern cooking class with ebullient lo chef John Vollertsen at the home of Native American sculptress Estella Loretto. Another o our sight, hearing and emotions were overwhelmed by an intimate opera concert in T Awakening Museum, a hangarlike space completely covered with 400 wooden panels—8,0 square feet worth—carved and painted by French-born artist Jean-Claude Gaugy over parts 13 years. *The Awakening* is a majestic work, kinetic and ferocious, the record of an express soul in turmoil and elation. Our group of about six from the Inn was already awed when o concert began, a magisterial, blind soprano named Jessica Bachicha electrifying the air arou us with an a cappella "Ave Maria." At the Inn of the Five Graces, sunny Santa Fe is very mu about inner experiences, too.—RICHARD NALLEY

PARIS

Biennale: Art and antique fairs are as European as cafés and cigarettes. Thousands browse the tony halls in Maastricht, in Holland, and Grosvenor House, in London, every year. But the most prestigious of them all, Paris' 22nd **BIENNALE DES ANTIQUAIRES**, sets up this September 15 to 28 in the Carrousel du Louvre. The event, held every two years, will feature 103 exhibitors from ten countries, culled from the crème de la crème of the world's finest private galleries.

Not surprisingly, this is a fair where museums themselves come to shop. For one thing, the fair provides an intimate viewing experience that few museums can equal. The Biennale's rigorously vetted items include furniture, drawings, paintings, tapestries, sculpture and rare books, some dating back to the Renaissance.

At this level, the dealers seem to pride themselves on scholarship as much as salesmanship—and many employ historians, who, like skilled sleuths, search out the pedigree of an item in obsessive detail. "Sometimes it takes us two years to find the background of a piece," says Marella Rossi, of Aveline, an elegant dealer on the rue du Faubourg St-Honoré.

This Biennale, Aveline will exhibit an Empire chair of mother-of-pearl and mahogany. "It belonged to a very important collector in Vienna, Count Pálffy," Rossi explains.

Hervé Aaron, of the renowned Didier Aaron & Cie, is a mainstay of the event. "We have done the Biennale for more than 25 years," he says. "The Biennale this year will be glorious as always, with a strong 18th-century market, but there is also a lot of excitement for the 1930s to the 1950s."

Decorator Jacques Grange will design Aaron's booth, where a 1765 neoclassical-style desk by Pierre Garnier, made of amaranth and kingwood accented with ormolu, will be on view. It is a woman's desk that Aaron describes as "very powerful and very elegant."

Bruce Bierman, a prominent New York and Palm Beach interior designer whose decorating style favors 20th-century classics, wouldn't miss the Biennale. "It is steeped in history," says Bierman, an "you will see the finest—ur pieces that can't be found anywhere else." The desig routinely takes clients to s for items that won't make it to the States. During the Biennale he purchased a p of Dunand 1930s tables fr 20th-century dealer Vallois

"I don't know what I en more, the incredible furnit and art, or the people-watc ing," Bierman admits, add "People get dressed up for it's all about style. This is A you know!"—DONNA PAUL

EYES ONLY

The 22nd Biennale des Antiquaires runs from September 15 to 28 at the Carrousel du Louvre. Daily admission is about $15. www.biennale-des-antiquaires.com

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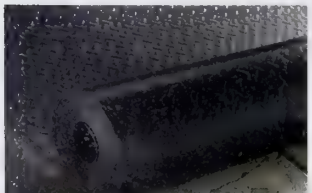

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WASHINGTON, D.C

International Spy Museum: I confess. I went to Washington, D.C.'s **INTERNATIONAL SPY MUSEUM** mainly to see the lipstick gun. About a half hour into my visit, just past the photo of Diana Rigg as coquettish TV spy Emma Peel, there it was: a short silver cylinder with a domed top. A female KGB agent of the 1960s would have removed the lipstick's cap, leaned across the table and put a single 4.5-millimeter bullet between your eyebrows. Like Emma herself, delicate and lethal. They called it the "Kiss of Death."

To my delight the Kiss was just a small part of the intrigue to be found at the Spy Museum. Though it delves into many dimensions of intelligence work using the full range of museum methods, this place knows that the best way to portray a strange culture is through its artifacts. Among some 200 specimens are many more guns masquerading as something else: flashlight, ring, glove, tobacco pipe. There is a newspaper that emits poison gas and a pen that launches darts.

Concealed cameras abound, of course, but my favorite surveillance tool is a giant wooden replica of the great seal of the United States. Presented by Soviet schoolchildren to the United States ambassador in 1946, it hung in his Moscow study for six years until technicians discovered its hidden transmitter. Our side also has stashed spy devices in all manner of things, including the CIA's "Dog Doo Transmitter." The agency used this realistic-looking *objet* to mark a reconnaissance site, betting that no one would pick it up for a closer inspection.

Unfortunately, before you get to see a single hollow coin (for storing microfilm), shoe bug (a hotel maid slipped it into your heel while you slept) or decoder ashtray (what do spies do in today's smoke-free workplace?), the museum forces you through a hokey group orientation. You have to watch a briefing film, memorize details of your chosen cover identity and follow the herd through a few early exhibits. My advice: Break away when you see an opening, and then roam freely through the rest of the 20,000 square feet of rambling museum space.

If the museum is crowded you'll need four hours to get a decent lo at everything. Don't mis the authentic World Wa German Enigma cipher machine. And pay quick homage to the fully work replica of the Aston Mar DB5 that Sean Connery as James Bond drove in *Goldfinger*. If you're i town for a few days, consider the museum's monthly "tradecraft" training sessions, includ a class taught at night on city streets.

Attached to the muse a restaurant called Zola serves nicely as a rendezvous spot. It has impressive menu and a polished look that woul have pleased 007. If yo companion wants to fix lips after lunch, howeve keep your poison newspa handy.—MICHAEL GOL

EYES ONLY

International Spy Museu 800 F Street, N Washington, D.C.; (86 779-6873 or (202) EY SPY-U, www.spymuseum.or Tickets are $13 for adult $10 for children. Advanc tickets recommende (800) 551-7328, www.tic etmaster.com. Zola resta rant: (202) 654-099 reservations suggeste

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Links to the Past

In Scotland's small golf courses ie the roots of the game.

When I was asked some years ago to assemble a list of distinguished books on golf for a publisher intent upon reprinting a series of classic ts, I remember being surprised that I could find none itten by a Scot. The omission seemed to lack all sense. hat else was Scotland if not a synonym for golf, the val seat and ancient province of the game, its famous ks courses on the North and Irish seas equivalent to e works of Shakespeare or William Butler Yeats? here, then, the native son who had posted a memoble round of well-struck prose, and why no essay or atise of a match with Old Tom Morris' anthology of tique wooden clubs? The publisher abandoned his oject before I came up with an answer to the question, d I forgot that it had occurred to me until last summer, hen I went to Scotland for the first time and underood why the Scots might think the game itself a form literary expression, sufficient to any philosophical or etic purpose that anybody cared to name, requiring no ther word of idle or superfluous commentary.

The premise doesn't cater to the carriage trade, and er the weekend of my arrival at the Gleneagles Hotel vited to a tournament in the company of players eparing for the next week's British Open), it was hard read the severe line of Protestant dissent on the soft ens of a luxurious resort that could as easily have been ced in the mountains of North Carolina or the izona desert. The hotel offers the convenience of ree well-groomed park courses, each of them decoed with handsome scenery (nearby sheep, distant gs), but all of them fitted to the demands of high-end rism—the speed of play too slow, the caddies smilg with spurious compliment, golf reduced to a harms pastime or an expensive toy.

By Sunday evening I'd seen my quota of stage-prop bagpipers patrolling the perimeter of the croquet lawn, and on Monday I rented a car and made good my escape, driving northeast to Carnoustie and then, over the span of the next five days, gradually south through Fife to Edinburgh, last east to Gullane and North Berwick. The excursion was not one that I'd anticipated, but Gleneagles was mostly rich Americans buying souvenir golf balls and trying on tweed caps; surely Scotland had something more to say about golf than what could be inferred from the scoring on a courageous credit card. Here I was in the country that had bestowed upon the world the ambiguous blessing of the game, and who was I to forgo acknowledgment of so heavy a debt?

I telephoned my office and my wife to explain the unavoidable delay, and by the end of the week I'd learned how to find golf courses at which it wasn't necessary to make an appointment for a tee time, and also the occasional Scotsman with whom I could go the distance of 18 holes without the pretense of aimless pleasantry. Even at Carnoustie I didn't have any trouble walking onto the championship course, and I could have done the same at St. Andrews had I not missed, by five minutes, the last start of the day. It was a simple matter to follow the golf flags on any road map, and if the first hole was open (at Crail or Anstruther or St. Monans), I changed my shoes in the car, paid the modest green fee (seldom more than $60) and went promptly off in the direction of Maggie's Loup or Jockie's Burn; if not, if too many foursomes were standing around in the fairways, I got back in the car and drove five or six miles further down the road to a sign pointing toward Kirkcaldy and Aberdour. Carrying my own clubs and never needing more than three and a half hours to complete a round, I managed to play two courses each day, one in the morning, the other in the lingering twilight of the northern summer. I was lucky with the weather (heavy wind but no rain), and by observing the players in the group ahead I could judge the line and probable distance of a blind shot over the horizon of an otherwise enigmatic dune.

My wayward journey along both shores of the Firth of Forth presented me with not only a succession of splendid views but also the leisure to study the lesson drawn up in the block letters of grass and sand, and by the time I'd passed through Musselburgh and Longniddry, I'd been recalled to an appreciation of the game as moral allegory, a *Pilgrim's Progress* meant to try the spirit and search the soul.

The lesson was the same one to which I'd been introduced 50 years ago on the Monterey Peninsula by a father and grandfather instructing me in the traditions, royal and ancient, of the game they approached with reverence and played in silence. Neither of them cared to listen to excuses. Play the shot and accept the consequences, the proof of character more important than the worldly trifle of a paltry score. Play the shot and know thyself for a bragging scoundrel, a Christian gentleman or a fool. Golf was unjust; so were death and shipwreck. The true measu of a golf course revealed itself in its moc ery of brave hopes and reckless boas deaf to special pleadings, beyond politi unmoved by sentiment or bribery, indifferent as the sky at noon to the joy sparrows or the misery of crows.

Contemptuous of what he called "t card-and-pencil point of view," gran father preferred match to medal play. T adding up of strokes he thought unspo ing, a corruption of the game that encou aged weakness and rewarded caution. T niggling a concern with mere numbers w undignified, led to trickery and the beari of false witness, produced handicaps suspicious origin and doubtful worth. T difficulty presented by an awkward lie looked upon not as a bad break (a co plaint that he associated with socialists a cads) but as a call to arms, the bone a marrow of the game, the chance to pla noble shot. I can still see him in the de bunker in front of the eighth green Cypress Point, smiling at his ball buri in a wall of sand, offering to bet that could hit it to within 12 feet of the pin. H opponent, a card-and-pencil sort of ma refused the bet. He already had count himself a winner of the hole, and becau he had watched grandfather play too ma heroic recoveries from the Sloughs Despond, he didn't wish to tempt fate the performance of a miracle.

Although brought up to understa golf as a philosophy that somehow join Greek stoicism with the triumph of t 19th-century British Empire—my gran father was fond of quoting Rudya Kipling, my father the maxims of Epi tetus—I strayed into the wilderness error in the late 1960s. Employed at t time as a journalist, and thus caught up what was then a general protest against forms of established authority, I deve oped a slovenly attitude toward the gam I didn't have occasion to play as frequen as I might have wished (by no means oft enough to retain the memory of a succes ful swing), and usually playing alone at odd hour of the day, I seized upon my la of practice as an excuse for the granting indulgences—conceding myself four-fo putts, replaying unlucky shots (sometim six or seven over the trial of as ma holes), improving the circumstances o

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ball victimized by a perversely situated pond, correcting the injustice of a dead stymie behind a eucalyptus tree.

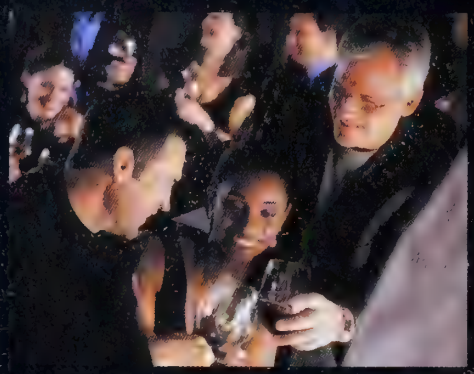
The bad habits didn't become permanent or chronic only because I gave up golf for 23 years. When my children were small, I was reluctant to schedule an appearance in even the most amiable of weekend foursomes, and rather than play poorly (an embarrassment as well as a descent into self-loathing and vain regret), I chose not to play at all. Golf in the meantime acquired the attributes of television spectacle and big-time money sport, its function as corporate entertainment encouraging weakness and rewarding caution. On my return to the game in the summer of 1997 I noticed that the granting of indulgences had been elevated to a form of commercial politesse. Mulligans were much in vogue, and so were the concessions of eight-foot putts. I also was struck by the ways in which the game had become encumbered with the ornament of conspicuous consumption—the newer clubhouses apparently built to the design specifications of Walt Disney or Donald Trump, the pro shop indistinguishable from a Ralph Lauren boutique, the gossip in the bar addressed to the proofs of money rather than those of character—who had been where on what important outing, with which chief executive, on whose plane, and did the sponsors provide everybody with an umbrella and a hat? The worst of it was the slowness of the play, a round of 18 holes routinely extended to a length of five hours, and the prolonged intervals between shots bidding up the market for prerecorded small talk and brand-name jokes.

I speak only of first impressions. Not every club has outfitted itself with greens by Jack Nicklaus and monogrammed towels by Tommy Hilfiger. At some courses the older attitudes remain securely if somewhat shabbily in place (no waterfalls, the members discouraged from standing for ten minutes over the precipice of a downhill putt), but the general trend drifts toward the comforts of the upscale resort, and so I was glad to discover on or near the Firth of Forth a respite from the corporate game.

Every course that I played I admired for its simplicity, but none seemed to me more beautiful than the West Links at North Berwick. I reached it at five o'cloc in the evening of my last day in Scotlan an old course (established in 1832), n long (6,033 yards), nine holes out ar nine holes back on the edge of the s 30 miles east of Edinburgh. Althoug arranged like St. Andrews along a narro margin of links land, the course at Nor Berwick presents a wider variance hazards, and possibly because of th names of the holes ("Gate," "Perfection 'Pit'), what little I could remember John Bunyan's *Pilgrim's Progress* can suddenly to mind in the elegiac light of slowly ebbing sunset. The stone wal across the 3rd and 13th fairways clear were intended to punish the sin of prid and the blind approaches to the 14th ar 17th greens could be read as sermo on the vanity of human wishes. Agai fortunate in the weather and the time day (damp mist but no wind), I playe the round in the company of two oth solitary golfers on the hole ahead and th hole behind, three wayfarers set fort on the Scots' equivalent of the road Canterbury, each of us in turn raising th flag of hope for the fellow pilgrim wh maybe had come thus far without havir fallen afoul, at least not yet, of World Wiseman or Giant Despair.

An extravagant allegory, but when mentioned it to an editor of *The Scotsma* at dinner later that night in Edinburgh, found an answer to my question abo the missing Scots among authors wh had written distinguished books on gol It wasn't only books on golf, he said, was all forms of literature other than th scientific treatise and the religious trac Set aside the humorless scholars inte upon theories of the universe, and th short list of notable Scots writers bega with Robert Burns, included Sir Walt Scott and ended with Robert Lou Stevenson. The editor was himself golfer, a low-handicap man at Muirfiel and he found nothing odd in the fact th his countrymen had neglected the id niceties of the literary arts. The Calvini spirit didn't dabble in decorative expre sion. What was at stake was the salvatio of the immortal soul, and who could wa to play with words when time was flee ing and the way to the Heavenly Ci open on the first tee? •

the buzz.



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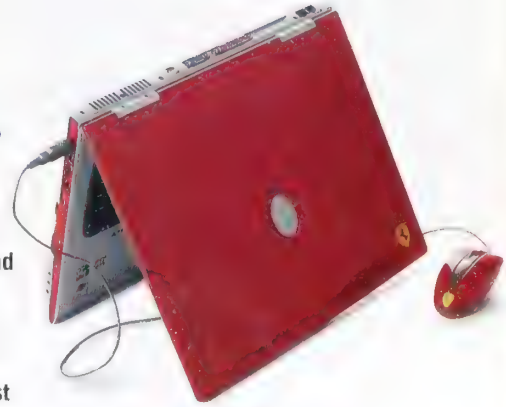
Flower Power

n the beginning, somewhere around 1957, there was the Elite, a lovely, light, innovative and extremely quick two-seater from design ius Colin Chapman's small British npany, Lotus Engineering. Elite in turn begat the Elan, Europa, the Eclat and the rit. Now, for the first time U.S. soil, comes the 2005 us Elise, and it is, not suringly, much like its predeces: a lovely, light, innovative and emely quick mid-engine roadster— time for the new millennium. The late Chapman an his extraordinary career in racing. Many of the ld's driving legends at one time or another worked his stables: Hill, Fittipaldi, Andretti, Mansell, na....Lotus race cars were fast mainly because they naged the power-to-weight ratio better than the comtion, and those secrets were incorporated into the npany's production models. The chassis for the Elise ghs only 150 pounds and the body is made of molded nposite materials. Add a 190-horsepower (Toyota-t) engine and six-speed gearbox, and the whole kage weighs a mere 1,975 pounds. Which is one on why the car flies from 0 to 60 in a scant 4.9 secs. Another is a spartan interior, which is laid out ch like that of a race car (forget about cargo space). act, one climbs down into the Elise—an act of conionism when the convertible top is up—and assumes id-back race position only inches from the ground. amazingly tight handling completes the sensation you too could be competing for Colin Chapman. *ker price, a bit less than $40,000; www.lotuscars.com.*



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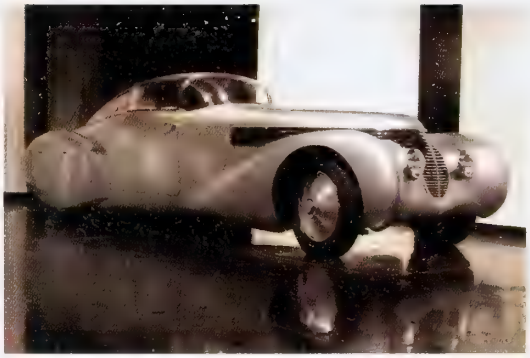
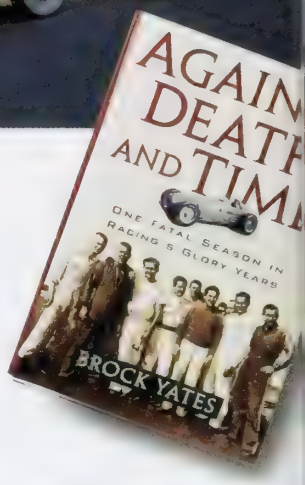


A French Confection

This year the Petersen Automotive Museum in Los Angeles celebrates its tenth anniversary with a show entitled *French Curves: The Automobile as Sculpture,* the largest display of prewar French cars of the Art Deco era ever assembled. Among items in the collection: a 1937 Bugatti 57-S Atlante, a 1937 Peugeot Darl'Mat, the famous Talbot-Lago T150 SS and the dazzling 1938 Dubonnet Xenia pictured here. French Curves *runs through January 2005. 6060 Wilshire Blvd., Los Angeles; www.petersen.org.*



SPEED THRILLS

**Rare is the automotive journ ist who is both authoritative and a superb writer. Brock Yates is one. The topic of Yates' latest book, *Against Death and Time: One Fatal Season in Racing's Glory Years,* is a series of four dis astrous incidents in 1955 th would combine to create the deadliest season in the hist of auto racing. He follows th lives of men who essentially hurled gasoline bombs arou crude tracks often wearing neckties but little in the way of protection. Each had an intense hunger to win, and guts beyond belief. "If you' under control," Yates quotes the great race driver Parnell Jones as saying, "you're not trying hard enough." *Thunder's Mouth Press, $25*

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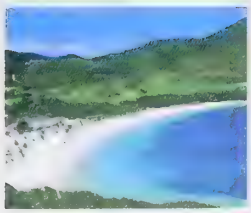

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les Grand Hotel d'Angkor, Siem Reap, Cambodia
Raffles L'Ermitage Beverly Hills, California
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Raffles The Plaza, Singapore
Raffles Le Montreux Palace, Montreux
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Long-Term Assets

It's a new market for antique stock certificates.

ack in the early '70s, when the Dow reached 900 on a good day, a General Mills auditor named Ken Prag thought up a creative way to approach curities: He began collecting old stock- and bond rtificates from defunct railroad companies. me had been signed by Cornelius Vanderbilt Jay Gould, who'd always inscribed his me in flamboyant blue. Others had been ued to John D. Rockefeller, in handy crements of $10,000. Within several ars, Prag had accumulated certifi-tes from 400 different railroad mpanies, which he figured, t unreasonably, brought his llection nearly to completion. hen one day he found a book list-g every railroad company American history—more an 10,000 of them. Ken ag kept collecting.

By the end of the decade, 'd accumulated an estimated ,000 certificates—issued not ly by railroads but also by mining mpanies, auto manufacturers and en baseball teams—and had left diting forever to broker these old curities by mail order. Over the next arter century, the number of collectors ould increase exponentially, to an estimated ,000. Today there are specialized auctions, as well an annual show at a hotel in Strasburg, Pennsylvania. ices have increased accordingly: Certificates that could bought for $100 in 1980 might sell for ten times that ount today. Yet Prag, who remains one of the nation's ading dealers, with one of the largest portfolios, lieves that certificates are still undervalued, especially

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in comparison to blue-chip collectibles such as coins and stamps. "Nearly all stocks and bonds were destroyed when they were redeemed," he explains. "The five percent that were saved are a part of history, and the pictures on them are real works of art."

Prag started out with railroad certificates because they had the most striking imagery—hand-cut steel engravings of trains and territory that often took a month of blindingly fine work to complete. Because they were such big business, railroads also had some of the most notorious signatories: not only Vanderbilt and Gould—whose certificates generally sell for between $800 and $1,200 a piece—but also future U.S. President Millard Fillmore. Prag owns one canceled $1,000 bond for the Hudson & Berkshire Railroad, signed by Fillmore as New York state comptroller, which he has priced at $2,250, more than twice its or inal face value.

There's even been posthumous app ciation on certificates for companies t went bankrupt. "People don't want to reminded of their bad investments, a tend to throw their certificates out in d gust," Prag notes. But any dupe who h on to his worthless stock in the P Motor Company—founded in 1918 b crook named Samuel C. Pandolfo as investment scam—could now sell it to aficionado for a couple of hundred buc

After a century and a half of dom tic tranquillity, the value on Confeder bonds has come around as well. Prag ow one that was issued in 1864, complete w a handsome portrait of Lt. General T "Stonewall" Jackson and coupons to c through 1894. The original owner deemed precisely one, and then the Sou lost the war. The certificate, or rather t uncut remainder of it, is now priced at $1

Unlike stamps and coins, stock a bond certificates don't have establish book value. However, frequent pub auctions by a New York firm called R. Smythe & Co. have made prices eas to establish. Smythe started busin 124 years ago researching inactive a unlisted securities for shareholders a their heirs. As antique certificates becar increasingly collectible, Smythe beg making offers on securities that it dete mined had no intrinsic value, making a win-win combo of Wall Street a *Antiques Roadshow*.

As Prag pursues his 10,000 railroa he looks to Smythe auctions, as well the antique fairs he often attends as exhibitor, for unusual material. Recen he's found certificates autographed b Declaration of Independence signato and America's first millionaire. But ev as he files ever deeper into Wall Stree steel-engraved history, he worries abo the future: "Companies don't like to iss certificates anymore," he frets. "Pret soon they'll stop altogether—and th what will we have to remember?" •

For more information about collecting st and bond certificates, contact Ken Pra (415) 586-9386, kprag@planeteria.n or R.M. Smythe & Co., (800) 622-188 www.smytheonline.com.

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For Bordeaux, The Futures Are Now

Dream or bust: the much-hyped 2003s

Dark rumors swirled along with the Riedel glasses at the Bordeaux spring barrel tastings: A famous château owner/ nsultant with more wine flow than cash flow s begging clients to advance him his fees; if was hurting, others were possibly on suicide tch. The whole wine pipeline, from château neighborhood bottle shop in Keokuk, was ffed with unsold Bordeaux from previous ntages, and the Bordelais were playing phonse and Gaston with this one: "No, I ist, dear boy, announce *your* prices first."

As of March 28, there were still no price nchmarks at all for the 2003 vintage, a ange, record-smashing harvest the Bordelais arly hoped would live up to its hype. This s, after all, the year of the epic summer at wave, the hottest August ever recorded the northern hemisphere. Forest fires raged Spain, London sautéed and in France, ere nearly 15,000 people would die from the heat, icials were anxiously hosing cold water onto the n-struck stacks of the country's nuclear reactors.

FIVE GLITTERING PRIZES OF THE 2003 VINTAGE

Ch. Latour, Pauillac
Ch. Margaux, Margaux
Ch. Lafite-Rothschild, Pauillac
Ch. Pavie, St-Émilion
Ch. Cos d'Estournel, St-Estèphe

In Bordeaux, vintage 2003 was a prodigy, among the earliest grape harvests in the 450-year history of the great Château Haut-Brion, and the earliest ever at Château Cheval Blanc and Château Lafite-Rothschild. It was also the driest summer the vineyards had seen since the iconic vintage of 1961. The wines were said to be almost supernaturally dense, chewy and rich. It was also—*c'est triste, non?*—a small crop in size, the perfect combination to trigger a tulipmania buying frenzy.

Big questions hovered: Would the 2003 wines be even more expensive than the sticker-shock 2000s, and if so, would a weak-dollar, recession-dogged public pay for them? Were the greed-blinded grandees of Bordeaux gearing up a Wile E. Coyote–like death trip, barreling off the cliff without looking down?

Up and down the D-2 wine road wobbled minivans and rented Renaults sardine-packed like clown cars with blue-suited wine luminaries. They—we—alighted like locusts, parking on the grass and at the margins of the vine rows for the massive group tastings organized by the Union des Grands Crus. Individual locusts sheered self-importantly off for semiprivate rendezvous at those châteaux too fine to mix with their neighbors. These four-day barrel tastings, begun as a very insider-y trade presentation for wine merchants interested in selling Bordeaux futures, had become a 4,500-person slurping festival, a rite of spring for Thai hoteliers, Texas liquor store owners and the nephew of someone's Swedish distributor.

Never mind that in some opinions the whole rigmarole was a milling anticlimax to the visit of wine critic Robert Parker, the One Voice That Matters, whose tour through a few days earlier was the subject of its own fervid rumor mill. And never mind, really, that millions of dollars in orders would be booked and hard-and-fast opinions formed (and passed along to consumers) on what in most businesses would be regarded as dangerously sketchy information, open to many shades of manipulation and absolutely certain—by its nature—to change dramatically.

The hundreds of mostly red Bordeaux samples available to be sniffed and gargled during the week of these *en primeur* (futures) tastings are drawn from their aging barrels in the châteaux's *chais* (the above-ground aging rooms traditional in these parts). Just six months earlier these opaque, tongue-punishingly tannic drinks were innocent grape juice. As finished, bottled wines, these 2003s would not be released for two more years, in 2006—and even then the better wines will be considered too young to drink right away.

Meanwhile, a lot of important things will happen to these wines. A racking or two from barrel to barrel will soften them, another 12 to 14 months in barrel will theoretically knit-in their oakiness (possibly at the expense of the sample's bright fruitiness). But other cellar treatments have less predictably happy results—fining and filtering, for example, which can strip away a wine's flavor at the last minute.

Then there is the 800-pound gorilla of *en primeur* caveats: In many cases, the samples are not close to the château's fi blends. Drawn from a few individual ba rels, a sample may or may not accurat reflect the château's final *cuvée*, compos from dozens or hundreds of such barre

As every cellar master knows, indivi ual barrels often vary wildly. There a scattered complaints seemingly every ye from tasters who chance to sample t same wine twice that some châteaux ha inexplicably drawn their samples hapha ardly, pouring a tannic, backward versi on Monday, say, and a soft, juicy one Tuesday. It is possible that your trust retailer might sell you futures of Châte Bigboy based on his tasting of Tuesda sample and end up innocently shippi you something closer to Monday's.

And, of course, innocence is not ways to be expecte Human nature bei what it is, it wou not be a rare châte owner who put most approachab palate-flattering ba rels forward, wheth they were stric representative or not. And don't so châteaux, as nearly everyone in Bordea seems to believe, actually cook up spec "Parker barrels," blended to suit Rob Parker's supposed taste for rich, low-ac intensely flavored wines? Given that ratings and opinions move the wine ma kets not just in America and England b in France itself, the better question mig be "Why wouldn't they?"

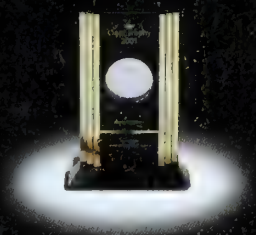
> Your trusted retailer might sell you futures of Château Bigboy based on his tasting of Tuesday's sample and end up innocently shipping you something closer to Monday's.

FIVE UNDERPRICED SERIOUS CONTENDERS

Ch. Ferrière, Margaux
Ch. Nairac, Barsac
Ch. Duhart-Milon, Pauillac
Ch. Pontet-Canet, Pauillac
Ch. d'Angludet, Margaux

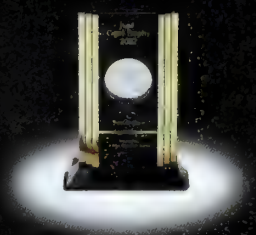
In its debut in 2001,
it received the year's Highest Rating
by Cigar Aficionado's

CIGAR insider



Also in 2001, it was named
"Cigar of the Year" by

EUROPEAN Cigar Cult JOURNAL



In 2002, it was awarded
"Dominican Cigar of the Year" by

EUROPEAN Cigar Cult JOURNAL

And in 2002, it received
"Best of the Best" by

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–ROBERT M. PARKER, JR., *PARKER'S WINE BUYER'S GUIDE 2002*

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IVE STONE ARGAINS

. Lafon-Rochet, St-Estèphe
. Potensac, Médoc
. Phélan-Ségur, St-Estèphe
. Poujeaux, Moulis
rolus, Haut-Médoc

Monday of *en primeur* week dawned a bright, delicate early spring morning. Promptly at 10:00, the group I had hooked with—a jolly band of English and Irish ne merchants hosted by the Sichel fam- of châteaux d'Angludet and Palmer—lled into the graceful, tree-lined *allée* of hâteau Margaux with sparkling white eth and pristine expectations. A docent rected us into the winery's vast, colon- ded first-year cellar, with red-stained k barrels stacked on their sides in ws that, in the dimmed light, seemed to etch away into the unknown. It was hushed as a church en- ptured in prayer. Here d there about the cav- nous space were other nall groups and other cents, huddled around ays of wine glasses or eling off to look for an proved place to spit.

We'd discussed the 2003 vintage obses- ely on the way here and had worked up ormidable worry list based on the weird ather: overblown alcohol levels; loads of nnin; faded, raisiny fruit; and clumsy llness due to low acidity.

The first glass put in my hand, a sam- e of Margaux's second wine, Pavillon ouge, instantly showed that here at least, were in for something else entirely. vid, bright and pure, the Pavillon ouge—the first sip of hundreds!—was o good to spit. It was, explained our cent, the most concentrated Pavillon ouge they'd ever made. Then came the 03 Château Margaux sample itself, with e same blossomy purity of fruit, but ding in a denseness, weight and inten- y that excavated a profound depth into e trademark elegance of Margaux.

General manager Paul Pontallier, wandering from group to group, called it "A powerful vintage with a sense of classicism." If this was what we were in for the rest of the week, I thought as I nodded at Pontallier like a deranged bobble-head doll, 2003 really might be a landmark vintage in Bordeaux history.

But of course, what makes Château Margaux Château Margaux is its very exceptionalness. Its vineyards rest over the site of a former riverbed, and plentiful groundwater kept its vines green during the drought conditions that shriveled leaves elsewhere. While thin-skinned Merlot grapes raisined in other vineyards, Margaux's Merlot was, in Pontallier's estimation, the best in 10 to 15 years. And in a year that was brutal to young vines, Margaux—with the vast majority of its acreage venerable and deep-rooted—had the luxury of not needing any.

Four days and hundreds of other wine samples later—I did start to spit—I was still impressed with the Bordeaux 2003s. Despite all the pessimistic speculation, there were very few out-and-out dogs, and some beauties—Latour and Margaux in particular, plus Lafite, Cos d'Estournel, Cheval Blanc and Pavie—that were among the handful of most riveting young Bordeaux wines I have ever tasted. There was a lot else to like about the vintage, too, including the fact that it floated many small boats, quality-wise, in lesser-known subregions, and produced a wonderful crop of sweet white Sauternes and Barsacs.

So vintage 2003 *is* very special. And it is very pricey. "Allowing for the euro, in easy, round numbers the [futures] prices are about as expensive as 2000," notes John Laird, vice president of importer Diageo Chateau & Estate Wines.

But a funny thing happened on the way to the marketplace: Vintage 2003 seemed to split into two vintages. Says Jeff Zacharia of Zachys in Scarsdale, New York, one of the country's largest Bordeaux retailers, "Normally in a vintage of this quality you'd see people snapping up maybe 100 top wines, but what we're seeing is very intense pressure on maybe just 30 wines."

In London, Anthony Russell of wine merchants Davy's seconds the assessment: "There is little enthusiasm for anything outside of the big hitters."

Part of this skew is due to Robert Parker's fair evaluation of the vintage as uneven. But the unusual buying pattern probably also reflects a more sobering, long-term truth: Bordeaux's hot names will likely prosper but there may be tough times ahead for the rest of the pack, which in Bordeaux means 11,000 or so other châteaux. Several dozen of them make superb wine, but even in exciting, small-crop vintages like 2003 Bordeaux as a whole may simply be producing too much wine, at too high a price, for a world with so many other wine options. What this means is that buyers willing to trust their own taste will find stupendous bargains on Bordeaux in the coming years from vintages 2001, 2002 and even the fine, still-lingering 1999s.

Those who want to lock in the hot-ticket 2003s should shop around, something Internet sites like Wine-Searcher.com have made almost ridiculously easy.

Those who want to lock in the hot-ticket 2003s should shop around, something Internet sites like Wine-Searcher.com have made almost ridiculously easy. Zachys, for example, offers 2003 Cheval Blanc futures for the going rate of $300 a bottle, but Washington's MacArthur Beverages somehow prices it (pro-rated on a case basis) at $225. Chicago's Sam's sells the '03 Cos d'Estournel for $143, New York's Sherry-Lehmann for $165. On the other hand, you could just forget the future and take the sure thing: the 2000 Cos d'Estournel, finished, bottled and in stock at Wally's in Los Angeles, sells for $105. •

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n the world of fine men's footwear, there remain a few traditionalists who know how to make a silk purse from a sow's ear—or, in case, a handsome pair of shoes from a horse's It's no joke: Shell cordovan is a unique her, made from two teardrop-shaped, subcuous layers beneath the skin of a horse's rump. Horween Leather Company of Chicago is last tannery in America producing vegetableed shell cordovan (using a six-month-long ess that plumps the thick membrane with oil wax), and Wisconsin-based Allen-Edmonds ne of just a few manufacturers still making wear from the stuff. But what stuff: Horn's tanning leaves it practically poreless, ly colored and incredibly durable (partly bese there's no artificial top finish to crack or off). For some reason, it also seems to be an uired taste—perhaps because it's relatively and therefore relatively expensive. Jim s, director of operations for Allen-Edmonds, ribes the cordovan customer as a connoisseur lassic menswear, who tends to pass on this reciation to his sons (no offense to daughters nded: Cordovan's heaviness simply doesn't l itself well to stilettos). That same gentleman ht also pass on the shoes themselves, for with right care (very little polish, lots of buffing), dovan footwear can last some 30 years. To p favorite pairs looking their best, Allenmonds recommends a service it calls "Recrafting," in ch old shoes are stripped and reserviced, like vintage , and sent back to customers as good as new. If y more things in life could be so dependable. *Split-toe dley lace-up in shell cordovan, $415, by Allen-Edmonds, o) 235-2348, www.allenedmonds.com.*

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Wi-fi Your Hi-fi

new crop of wireless gadgets will be music to your ears.

n just a few years, personal computers have transformed the way we listen to music. Instead of fumbling with tapes and CDs, we can now store vast ounts of audio on our hard drives, all of which we can ess with the flick of a finger. But for most of us, there's rinkle in this revolution; namely that our computers n't communicating with our hi-fis. No self-respecting io snob would blast Beethoven through the tinny litspeakers that come with the typical PC. Instead, he rs headphones, or he resorts to running an unsightly le from his computer to his receiver, and that's no ll matter if the two are in different areas of the house. d anyway, messy wires are *so* 20th century.

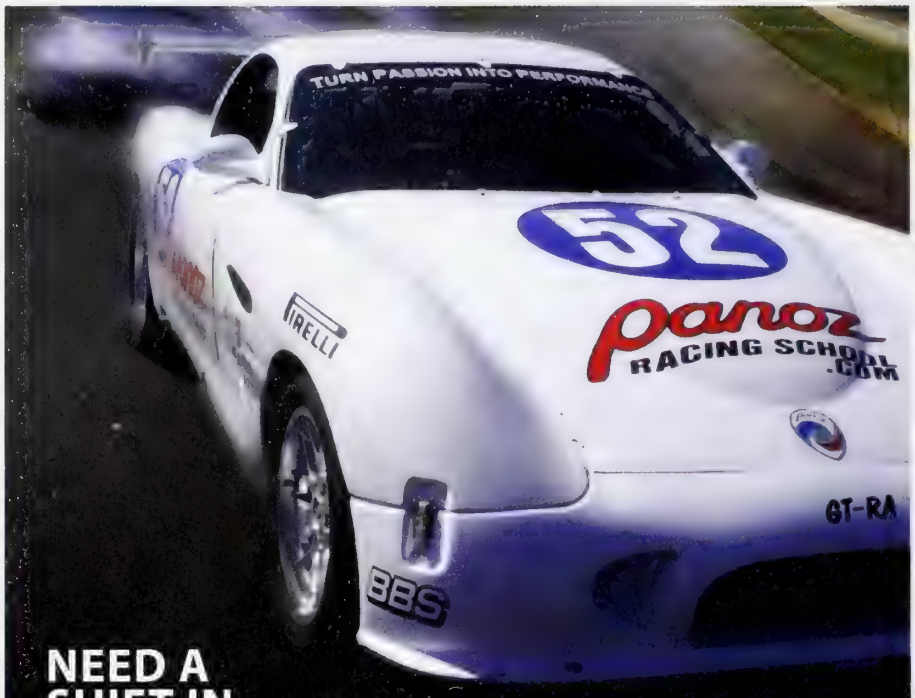
Now a new generation of gadgets is bridging the hard ve to hi-fi gap, enabling wireless communication ween your digital library and those $1,000 JBL speakyou got for Christmas last year. Even better, these gets are capable of fulfilling the music lover's dream ynchronized, stereophonic sound projected to every ner of the house—without ripping out any drywall.

Among the pioneers in the field is Slim Devices' **eezebox**. This little number ushers music from hard e to stereo via Ethernet or over your existing wi-fi netrk. Attached to your hi-fi by a short RCA cable, the eezebox will grab music right out of the air. Remote trol in hand, you can scroll through your entire library the box's bright little screen, playing albums or custom ylists. (Squeezebox, $280; www.slimdevices.com)

A newcomer on the market, Roku's **SoundBridge 000** performs the same job as the Squeezebox, ough its hypermodern, cylindrical design wins the uty contest. It also has the advantage of a larger screen, ily visible from across a room. Better yet, the M2000 play music transmitted directly from your iTunes wser. (The Squeezebox depends on its own, slightly nkier interface.) The Roku costs almost twice as much the Squeezebox, however, plus $50 for its separate fi card. (M2000, $500; www.rokulabs.com)

Operated wirelessly, the Squeezebox and the M2000 y 128-bit MP3s seamlessly, although in our informal

From top: Sony Locationfree TV; Locationfree base station; Apple AirPort Express; Slim Devices Squeezebox; Sonos ZonePlayer; Sonos Controller; Roku SoundBridge M2000.



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tests, run on an 802.11g wireless router, both skipped and stuttered while playing file formats like WAVs and AIFFs. The M2000 performed well with Apple's own format, AAC, the Squeezebox less so—although results can vary from one wireless network to the next. Such are the vagaries of this new technology.

Lest the little guys get too comfortable, Apple itself has just burst onto the scene with the **AirPort Express**, a networking device whose many functions include "AirTunes." The Express's edge lies in its simplicity. The box itself, no larger than a pack of smokes, plugs into the wall right next to the stereo. Wire it to the hi-fi, and voilà, you're jamming. As with the Roku, you can play music directly through iTunes. But the Express's simplicity is also its Achilles' heel. Because it lacks a remote control and a screen, music must be played directly from the computer, which means you might be controlling the stereo in den from the PC in the home office. best, you'll be toting your wireless lap from room to room. In the sound-qua department, however, the Express ov whelms. It plays AACs, WAVs and AI without the slightest yip. (AirPort Expr $130; www.apple.com/airportexpress)

Perhaps the most ambitious new er into the realm of wireless music co from a Santa Barbara, California, co pany called Sonos. It hasn't just the wires out of music, it's dispatch the stereo as well. Plug one of Son spartan gray-and-white **ZonePlayers** i your wireless router or your comput Ethernet jack. Attach your own speak and Sonos becomes a 50-watt amplif jukebox and Internet radio tuner all in o That done, you can place other play anywhere—in the bedroom, the den or on the patio. Attach more speakers, a they'll link wirelessly with the first box fill the house with music. Sonos does even need existing wi-fi: The ZonePlay communicate over their own proprieta network. The system is controlled b remote that can be directed to ev Sonos player in the house, making th play the same or different songs at varyi volumes. And like the Express, Sonos h no trouble with multiple file forma (ZonePlayers, $500 each; Controller, $4 www.sonos.com)

As if all of this wireless music were wondrous enough, Sony has announc that in October it will release **Locationfree TV**. This lightweight perso viewer, available in 7- and 12.1-inch scre sizes, will wirelessly capture A/V fr an unobtrusive base station that can hooked up to a DVD player, a VCR even a TiVo or cable box. Personal scre in hand, feel free to move about the hou Take it on the road and it will connect w the base station via the Internet. Where there's a wi-fi hot spot, you can view t content in the DVD player or VCR ba home. (TiVo and cable TV won't wo this way, however, due to FCC regu tions.) The Locationfree TV is still in t last stages of development, but we ha high hopes that it will fulfill its promise any gadget that sends wires packing i winner in our book. (7-inch model, $1,00 12.1-inch, $1,500; www.sonystyle.com) •

Me - Born in Geneva / 2003

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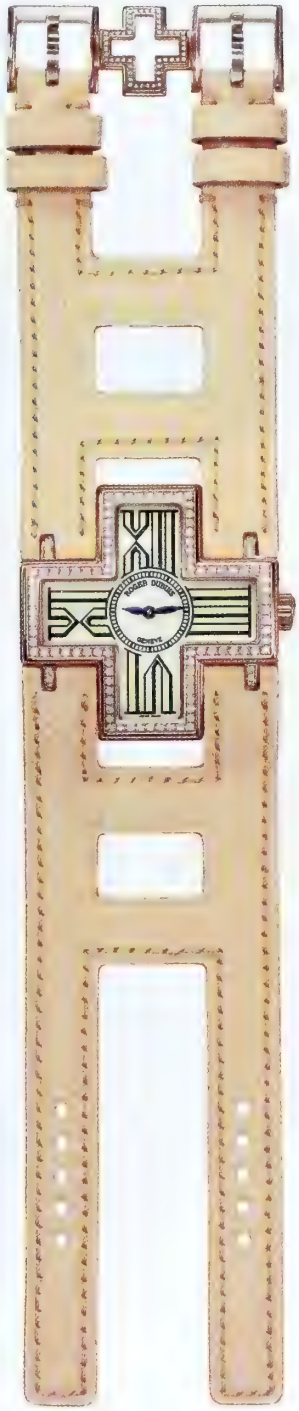
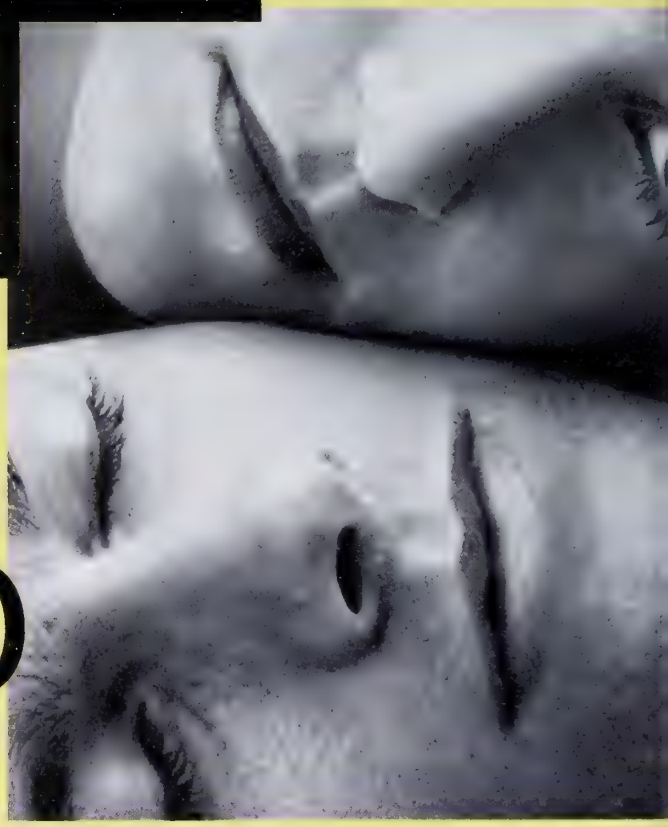


TEMPUS VITAE

luxury

+



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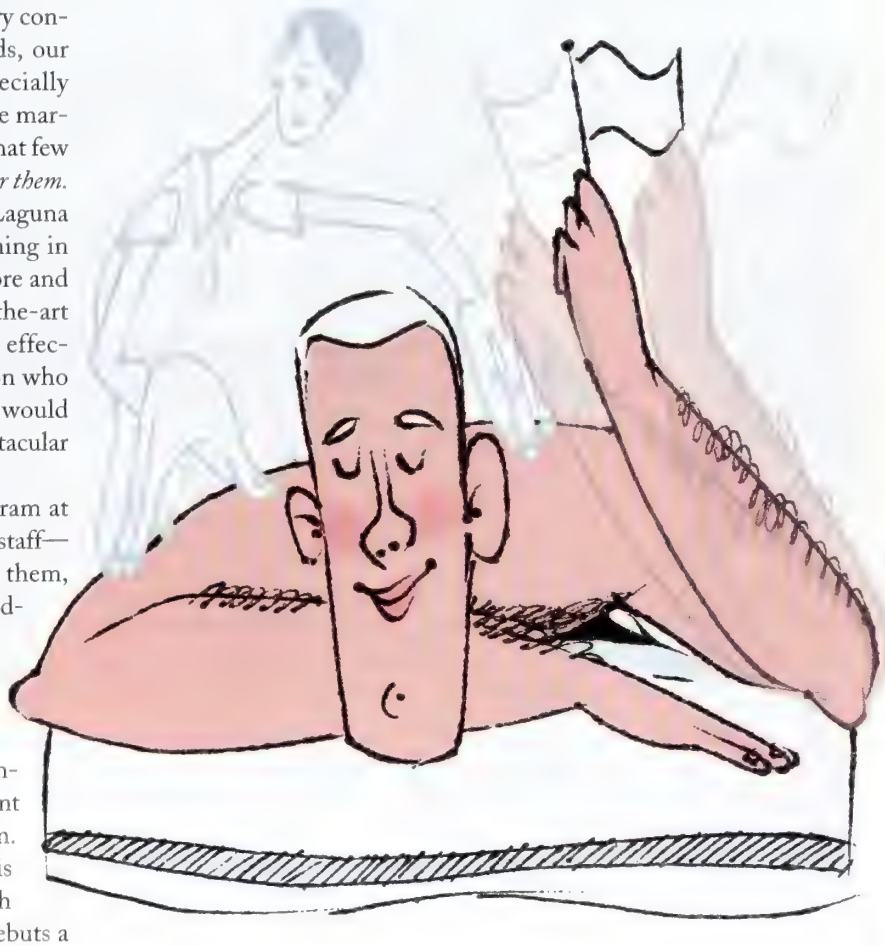
ustomization is a buzzword for 21st-century consumers. We've been seduced by our iPods, our personal-training sessions and our specially nded fragrances. The fitness and personal-care mar-s have been hip to the trend for years, mindful that few ople can resist the lure of a massage that's *just for them.* the management at Montage Resort & Spa, Laguna ach, California, recognized shortly after opening in ly 2003 that it could lure clients into trying more and w services in its 20,000-square-foot, state-of-the-art ility—and market to other resort guests more effec-ely—by tailoring the experience to each person who me through the door. (Although why anyone would quire enticement beyond the views from its spectacular eanside setting is a mystery to me.)

Enter the Surrender Retreat, a four-day program at ontage in which clients let the experts—the spa staff—termine the best treatments and services for them, her than cherry-picking from some strange-sound-g names on a menu. Surrendering eliminates the r factor that spa newbies (and many men) con-nt when they look for something beyond basic edish massage.



Instead, Surrendered clients are diagnosed, pam-red, worked out and otherwise overhauled to a point near-intolerable reinvigoration and relaxation. hen Montage introduced Surrender earlier this r, the only available service was a single day, with ninimum of two hours. This month, the spa debuts a l-blown four-day experience that begins with a detailed quiry regarding eating and exercise habits, illnesses, al-gies and treatment likes and dislikes. (Typically, this is ne by phone, in advance of a guest's arrival.) After the

client has unpacked and spent his or her day on the beach or golf course, he or she can come by the spa for an initiation of cold- and hot-water therapies—designed to stimulate and then relax—and get comfortable with the spa's environs. (The facility has both men's and women's areas as well as 21 treatment rooms; the male/female client ratio is 35/65.)

Then the real fun begins. When I sampled Surrender, I was treated first to about an hour of reflexology. Call it a glorified foot rub if you'd like (and what's wrong with that, anyway?), but the theory goes that different points on the foot correlate to different parts of the body—and that reflexology, which involves each of these spots being massaged, can provide a kind of holistic X-ray of a person. Anne Bramham, who developed the Surrender program with Montage's spa director, Barbara Schultz, worked my weary feet over good. Then she gave me the bad news. In my case, I had low iron and troubles in three of my seven chakras. The good news was that four of them are in sound working order, a shock given that I don't even know where they are, and thus haven't watered them lately. (In Western medicine-speak, Bramham detected imbalances in my thyroid, thymus and adrenal glands.) To address such afflictions a client would be prescribed two spa treatments and two hours of exercise daily, all custom-tailored, plus a nutritional consultation. In my case, I was given lists of foods high in chlorine, iodine and iron. I'd been diagnosed with low iron before, but the first surprised me, as I have always been a big leafy-green vegetable eater.

Treatmentwise, Bramham advised a marine algae bath (more iodine and chlorine again) coupled with a hit of a Vichy shower. For the uninitiated, a Vichy shower mandates that you lie on a treatment table while six or seven showerheads direct water at your prone body from above. Bliss. To round out my four days, Bramham also recommended one of Montage's signature treatments, the Ocean Radiance Marine Wrap, more reflexology (bummer!) and several rounds of neuromuscular and connective-tissue massage to give my aching joints and muscles some relief.

Surrendered clients are also assign their own trainers for the length of th program. It was suggested that rath than the running and biking I norma do, I should take a daily walk on t beach, as well as try some high-altitu hiking, since Bramham had sensed a lit trouble in my lungs (news to me) and f I could benefit from that vigorous wo out. I received props for my weekly yo practice, but not for ignoring my bod need to recover when I engage in hig impact exercise.

After such concentrated attention felt that I had become a gelatinous mass noodle-y goo, kind of like a blissful hum pâté. Perhaps that's why the French are fond of surrendering. •

The four-day, three-night Surrender Retr at Montage Spa & Resort, Laguna Bea California, will be offered on the followi weekends: September 26–29; November 7– January 23–26; March 27–30 and April 24– Rates per person start at $4,970 (single oc pancy) and $3,890 (double occupancy). (94 715-6000, www.montagelagunabeach.co

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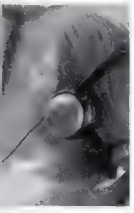

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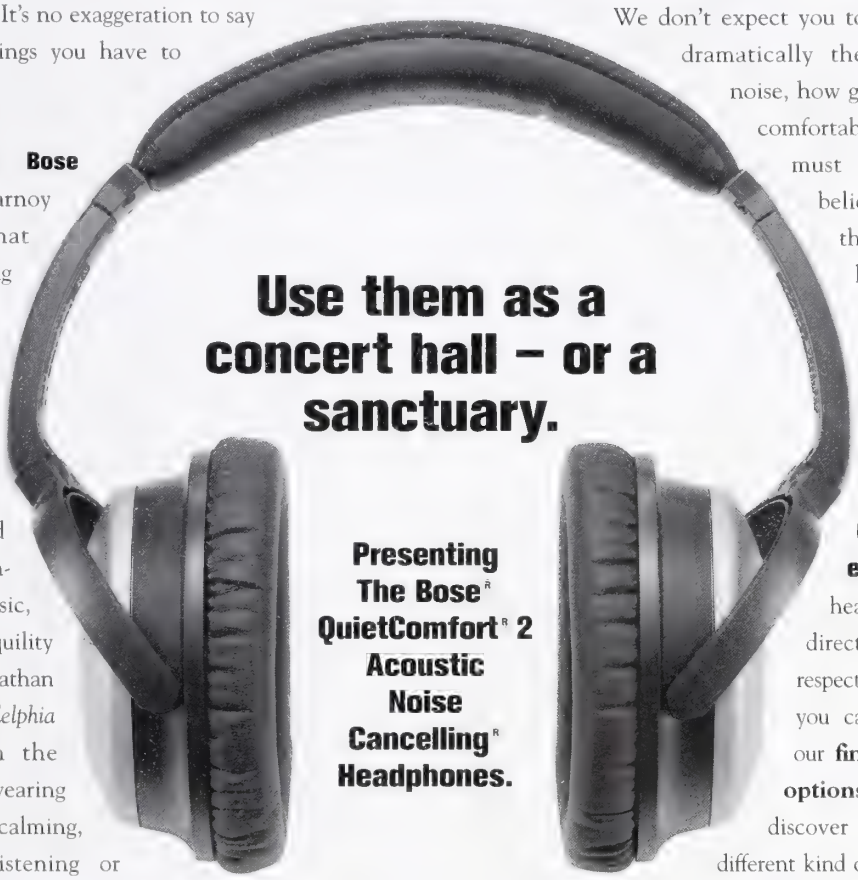

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"It has been said, 'Life is not measured by the number of breaths we take, but by those moments that take our breath away,' and we are out of breath!" — The Johnsons (clients aboard a recent Nicholson Yachts charter)

The Spirit of Yachting

It's Smooth Sailing for the Luxury Yacht Market

by Georgia R. B

Unless you have perched upon the breezy bow of a yacht as she plows through blue-green seas at 15 knots, or awakened to the dancing sparkles of the sun that illuminate the waters like a golden carpet, the luxurious world of private yachting will probably not become your pastime obsession. Those who own private yachts rarely share this rapt fascination. Instead, they relish them. Surprisingly, the world of yachting, once a temptation for only the very wealthy, is luring a more diverse clientele, thanks to lower interest rates, creative financing and unique charter opportunities.

The fiscal benefits for cities fortunate enough to host a yacht-builder are astounding. Trinity Yachts, one of North America's premier yacht-builders, has continued to carry on an economic legacy in New Orleans, where Higgins Industries, an American icon in the production of military craft during World War II, saw its unprecedented success. Today, Trinity employs nearly 500 and recently broke ground for the first phase of a multimillion-dollar expansion due to the demand for yachts in the 200-foot to 250-foot range.

In Savannah, Georgia, service provider Global Ship Systems is attracting a growing number of expansive yachts and commercial vessels. Visits to the Southern port result in short- and long-term housing for captains, crew and owners, who dine, shop and utilize city services year-round, sinking thousands of dollars for food, dining and shopping into the area's tourism economy.

"Increased attendance at major boat shows is another very positive signal for the industry," says Thom Dammrich, president of the National Marine Manufacturers Association. "Half of the new boat owners surveyed by J.D. Power and Associates last year said they began their purchase at a boat show." If you don't believe it, head to south Florida this winter and see for yourself. Boat show sales there are breaking all-time records.

Trinity Yachts' sleek 150-foot tri-deck motoryacht, *Mia Elise*, offers luxurious accommodation

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Contact: James D. Stribling (912) 239-1130

Photograph by Joseph Byrd

Global Ship Systems' Savannah site occupies 21 acres along one of the busiest and most profitable commercial shipping ports in the U.S.

It's Showtime!

Boosting the yachting economy to healthy statistics is America's premier authority on boat and yacht sales, Kaye Pearson. Pearson staged his first Fort Lauderdale show in 1976 and now produces eight boat shows, along with numerous special events throughout the year. Specializing in event production, Show Management has made the Fort Lauderdale International Boat Show, the Miami Brokerage Yacht Show and the Palm Beach Boat Show three of the world's largest in-water boat shows.

Last year, more than $600 million in boats (including yachts) were sold during a five-day period at a single south Florida boat show. This year's 45th Annual Fort Lauderdale International Boat Show® (October 28-November 1) will host more than $1.6 billion in boats and boat-related products.

Spanning more than 3 million square feet of space on land and in water, Pearson's seaside haven for seafaring shoppers has been transformed into a citywide event encompassing miles. Providing its own land and water transportation system to make all locations easily accessible to visitors, it has become one of the world's most highly acclaimed events.

The Fort Lauderdale Boat Show sites offer displays ranging from multimillion-dollar superyachts to family boats, inflatables, engines, accessories and entertainment companies.

Service Industry Update: World-Class Service in the Deep South

An East Coast shipyard where minehunters were once produced for the U.S. Navy is boasting a new name, along with exceptional superyacht and military refit and repair service options. Situated in a city made famous by history, Global Ship Systems announced in January that its Savannah shipyard would debut as "one of the premier shipyards in North America," according to CEO Robert S. Creech III.

With recent clients including *Katana*, a 244-megayacht; *F* 180-foot Luerssen; and *Meduse*, a 205-foot Feadship, Glob Systems provides repair and refit services to private yacht c the military and commercial entities. "As a new and growin pany," Creech says, "we are extremely excited about the p the Savannah River shipyard provides us to expand our p offerings and capabilities."

With its strategic headquarters centrally located for traveler ing north or south, the company offers one of the largest d structures in the world on Savannah's bustling riverfront. Le team of yachting industry veterans, the Savannah facility offers foot graving dock with retractable cover, a covered boat hous ning the entire wet slip, a covered paint booth accommodati ships up to 200 feet each, and a 160,000-square-foot con materials fabrication building, making it one of the most comp sive and convenient sites on the East Coast.

Carrying on a tradition of Southern hospitality, the company visiting yacht owners, captains and crew a variety of appealin yard amenities. There are tasteful, semiprivate onsite office f that feature land-line telephones, high-speed Internet acce onsite cafeteria, complimentary daily newspapers, fresh doug 24-hour security and a wide area network. Visitors join a long distinguished clients who have sampled the city's Southern f comfort. Savannah offers fine housing options (ranging from beach villas and secure rental accommodations to charming inns and lavish hotels), world-famous restaurants, a multit shopping areas and plenty of nightly entertainment options.

Recently developed Hutchinson Island, located across th from Global Ship Systems' shipyard, affords clients the luxu five-star resort and private club, as well as services at the famous Greenbrier Spa and an 18-hole Troon golf course. Island and its beaches on the Atlantic Ocean are just a 20- drive from the shipyard, and Hilton Head Island, S.C., with its

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LUXURY CUSTOM YACHTS

Photograph courtesy of Show Management

It's a boat lover's haven that stretches for miles as Show Management's world-class shows kick off this fall in Fort Lauderdale (October 28-November 1, 2004)

famous golf courses, is a 30-minute drive away. Additionally, access to the yard is convenient to the private jet owner and commercial flier. The Savannah/Hilton Head International Airport offers direct-flight service to Houston; Cincinnati; New York/LaGuardia; Newark, N.J.; Washington, D.C.; Chicago; Miami; and other major cities, making this shipyard easily accessible by auto, boat or air. The city is also headquarters for Gulfstream Aerospace, where private aircraft are welcome.

For more information or to make a reservation for service, contact Jim Stribling at 912-239-1130 or Leslie Lallande at 954-471-8721. Be sure to visit the Web site: www.globalshipsystems.com.

Trinity Yachts — American Born, World-Class Superyachts

"Boat lovers suffer a disease: biggerboatitis. It is seldom terminal, but it's a long time before size seizure ceases." — Malcolm S. Forbes

Malcolm Forbes' description of a yacht owner proves to be right on target in the case of one North American builder. The majority of Trinity Yachts' customers are repeat and know the 38-acre shipyard well. Upon completion of their first yacht, they've opted to return to build larger vessels. Even one of the company's three partners is a former client.

Those bigger yachts include world cruising yachts, called expedition yachts. Pioneering the current trend in expedition yachting in 1999, Trinity's overall system engineering has set globally recognized industry standards. "These [expedition] yachts represent about 10% to 15% of the market," says William S. Smith III, vice president.

If you ask the principals, the company's success is all about relationship building. "Upon delivery of their first yacht or purchase of an existing Trinity build, they become part of the Trinity family," Smith adds. "It is a style of management that accounts for Trinity's meteoric growth in recent years."

To those who are familiar with yachts, Trinity Yachts are c
Each build boasts fine exterior fairing and paintwork, i
woodworking, extremely low noise levels and minimum vi
At sea, they offer excellent sea-keeping ability, fresh air re
ment systems, maximum stability at anchor and extreme
cient hull design with high-speed capabilities.

At the helm of Trinity Yachts are three yachting veteran
Dane III, president and former CEO of Halter Marine Inc
Sabates, chairman, who was once Trinity's largest client; and
formerly of Friede Goldman Halter.

Trinity Yachts entered into a joint venture with Victor
Enterprises, owned by Felix and Carolyn Sabates, in 1995
the Sabates' dream series. Together, the companies' mis
design, engineer and build a new series of steel-and-alu
motoryachts has been exemplified in many custom supery

Trinity's new multimillion-dollar expansion will inclu
construction of a new outfitting building measuring 250 fee
by 65 feet (20m) by 74 feet (23m). The present facility is eq
with a 330-ton Travelift, a half-mile (805m) of dockside be
with a depth in excess of 20 feet (6.1m) of water depth, a
or 60-cycle shore-power availability. Trinity has the ability to
engineer and build in any size up to 330 feet (100m).

On display at this fall's Fort Lauderdale Boat Show w
parade of Trinity Yachts, including: the 157-foot M/Y *Janie*
foot M/Y *Mia Elise*; 141-foot M/Y *Positive Carry*; 142-fo
Chevy Toy and 124-foot M/Y *Victory Lane*.

**To visit Trinity's North America shipyard, go to www
yachts.com; call Felix Sabates, 704-905-4640; or contact V
S. Smith III, 504-284-7120, wssmith3@TrinityYachts.com.**

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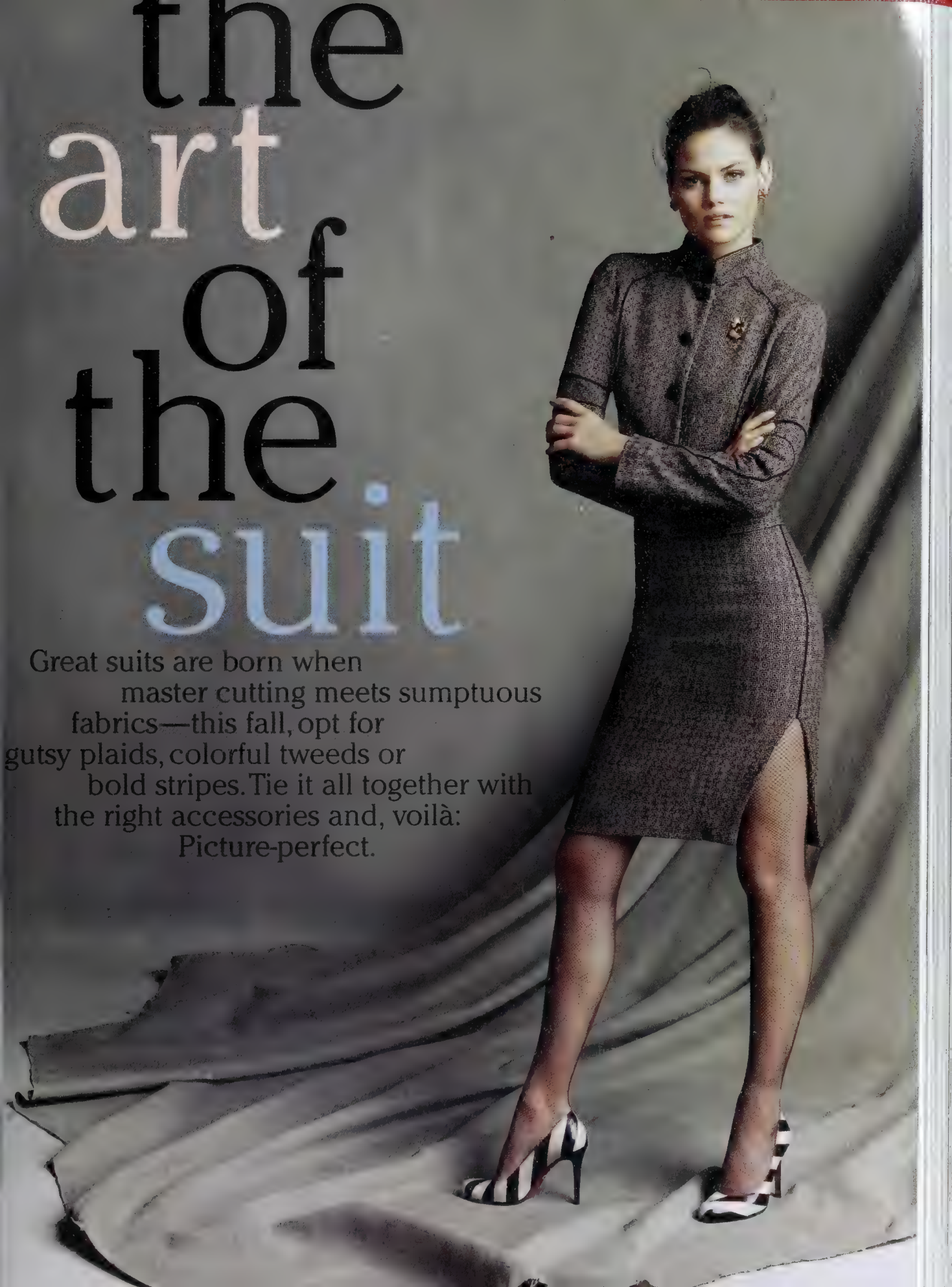
Prices approximate; for details, see page 106. *This page, left*: Wool suit, $1,495, and cotton shirt, $225, by John Varvatos. Silk tie by Calvin Klein. $50. Socks by Pantherella. $35. Shoes by A. Testoni. $840. *Middle*: Wool suit, $1,495, and silk tie, $98, by Canali. Cotton shirt by Paul Stuart. $139. *Right*: Wool suit, $2,250, cotton shirt, $270, and shoes, $710, by Hermès. Silk tie by Paul Stuart. $90. *Opposite*: Wool jacket, $1,990, and skirt, $790, by Carolina Herrera. Coral-and-diamond earrings, $54,000, and brooch, $30,000, by Cartier. Hosiery by Wolford. $48. Shoes by Christian Louboutin. $590. All frames courtesy of Lowy, New York.

By Mark Grischke | Photographs by Michael Stratton

the art of the suit

Great suits are born when master cutting meets sumptuous fabrics—this fall, opt for gutsy plaids, colorful tweeds or bold stripes. Tie it all together with the right accessories and, voilà: Picture-perfect.



Wool jacket, $1,700, silk skirt, $1,320, and boots, $645, by Louis Vuitton. Vintage glass pearl necklace, $395; faux turquoise-and ruby brooch, $275, and Kenneth Jay Lane ear clip (worn on wrist), $150, at Jewelfever. Hosiery by Wolford, $48. *Opposite:* Wool-and-cashmere suit by Vestimenta, $1,695. Cotton shirt by Paul Stuart, $129. Silk tie by Brioni, $150. Linen pocket square by Robert Talbott, $85.

Wool suit, $2,650, cotton shirt, $425, silk tie, $135, and crocodile loafers, $2,995, by Giorgio Armani. Socks by Pantherella, $35. *Opposite:* His wool suit, $1,395, and cotton shirt, $375, by Dolce & Gabbana. Wool tie by Kiton, $235. Shoes by Sergio Rossi, $540. Her wool suit with cardigan by Dolce & Gabbana, $3,495. Vintage Chanel brooch at JewelFever, $695. Gold necklace by Cartier, $1,700. Gold link chain (on wrist) by David Yurman, $3,600. Hosiery by Wolford, $48. Shoes by Stuart Weitzman, $235.

Wool suit by Brioni. $4,400. Cotton shirt by Canali. $195. Silk-and-wool tie, $90, and silk pocket square, $75, by Robert Talbott. Gold watch by Cartier. $9,500. *Opposite:* Cashmere suit, *left*, $3,995, wool suit, *right*, $2,995, cotton shirts, $295, and silk ties, $135, by Ralph Lauren Purple Label. Shoes, *left*, by Bruno Magli. $650. Shoes, *right*, by Sergio Rossi. $540. Gold watch by Carl Bucherer. $7,900. Cuff links, *left*, by Temple St. Clair. $3,600. Cuff links, *right*, by Cartier, $320. Her wool-and-silk jacket, $1,698, and skirt, $698, by Ralph Lauren Collection. Turquoise flower clip by Van Cleef & Arpels. $18,700. Hosiery by Wolford. $48. Shoes by Brian Atwood. $545. Hair by Roberto DiCuia at TRAFIKinc.com. Makeup by Terri Apanasewicz at Cloutieragency.com. Nails by Maricica at Warren Tricomi. Associate Editor: Kerry Mullett Strom.

warriors: lighting out from The Homestead

Roughing It

Five SUVs, four shotguns, two spa resorts, one star NFL defensive tackle, two sporting clay courses, off-roading, wining, dining—our kind of safari.

By Christopher Buckley

I was taught that it's not polite to talk about money, but it was hard not to muse on the fact that our little procession of cars and shotguns was worth a half million dollars, if only for insurance purposes.

"Plus our bodies," Dave Butz observed. "They're worth at least eighty-five bucks apiece."

Dave Butz, as you probably already know, is the former All-Pro defensive tackle for the Washington Redskins and veteran of three Super Bowls. His body, at six-foot-six and 315 pounds, is doubtless worth more than mine, on any market. I came away from our three-day

Photographs by Maxwell MacKenzie

adventure impressed by every aspect of Dave: his amiable and gentle manner; his marksmanship; his love of shooting; his patient, even inspired, coaching of my own dismal shooting; and not least by his three Super Bowl rings, the ultimate in bling-bling. I was impressed, too, by the Porsche Cayenne, which managed to accommodate Dave without his having to put his head through the sunroof.

Each vehicle was fully loaded with all the trimmings, making our five-SUV motorcade Arianna Huffington's worst nightmare: 14 total tons of sport utility with an aggregate city mileage per gallon of 64. On the other hand, the cargo area of the Cadillac Escalade was roomy enough to fit even Michael Moore—possibly even two Michael Moores, though one per planet is surely enough.

Until now, I had never expected to find myself in the driver's seat of a Cadillac Escalade ESV Platinum ($68,730). By trip's end, they had to pry the steering wheel from my fingers. I had no idea three tons of steel could accelerate to 90 mph going uphill on an interstate highway. Nor did I know that a Porsche Cayenne Turbo ($93,045) could go 118 mph on winding country roads with one's foot barely pressing down on the accelerator pedal. I also got to drive a dreamy Lexus LX 470 ($70,316), a hearty Land Rover Range Rover HSE ($74,250) and a fierce-looking Mercedes-Benz G500 ($78,340). What a voyage of discovery it was. And how modest my own little VW Golf Cabriolet now feels.

In due course we arrived at our first destination, The Homestead, in Hot Springs, Virginia. The Homestead is a grand old gal of a resort that has been around since 1760-something, long enough to have once burned down. George Washington and Thomas Jefferson soaked in its healing waters. Here, after the custom of Southern gentility, one dresses for dinner and everyone calls you "Sir"—and in the case of Dave Butz, they actually mean it. The breakfast buffet looks like a trade show for the National Association of People Who Require 6,000 Calories for Breakfast. I always know it is time to leave The Homestead when I start ladling "sausage gravy" onto my already heaping plate of grits, eggs, bacon, sausage, pancake, Belgian waffle and chocolate donut. I was thrilled to read that my hero James Thurber once had a heart attack at The Homestead. So I'm not overindulging, but paying homage.

Our first night there, we repaired to the bar to, as Dave put it, "suck up some suds." This was the first time I had ever tried to match an NFL football player drink for drink. My notes from the evening are difficult to read, but if I have this right, they indicate that Dave's career in the League lasted 16 years; the average player's is 3.2 years.

My notes also contain hieroglyphics pertaining to Redskins practices under the legendary George Allen. Water was not a part of Coach Allen's regimen. "He thought water was for sissies," Dave said. Two three-ho practices a day in summer heat, ending with 14 40-yard wi sprints. On some days, Dave might shed as much as 22 poun His muscles and joints cracked so loudly when he got up o morning that when he reached for something on the nigl stand—water, presumably—the sound woke up his wife. I played 176 consecutive games in those years and never misse practice. My notes from the evening include this quote: "Ther

Blam-blam, bling-bling: two of Dave Butz's three Super Bowl

nothing in the civilian world that will ever replace the feeling j prior to the snap of the ball."

Apparently we also talked that night about shooting. Dav a champion shooter and a member of the board of the Natio Rifle Association. One day he shot a total of 3,200 rounds b tween 9 a.m. and 4 p.m. That's almost 460 rounds per ho probably about the same rate of fire as that of an average po bastard U.S. Marine in Fallujah. But Dave Butz, like a Mari usually hits whatever he's aiming at, just as he did on the footb field. Let me essay a joke: What do ducks and quarterbacks ha in common? Neither get past jersey number 65.

The sporting clays course at The Homestead is congenial every way. It may not be the best course in the country, b it has one thing no other course has: David Judah. Dave Jud is the shooting club manager and top instructor. He is a nativ born Jamaican "from Constant Spring, St. Andrew, up fro King-*ston*." He is a sunny, agreeable man of warm hum and the best shotgun instructor I've ever experienced. Da Butz is the second.

Dave Judah teaches in Zen phrases: "Now this next on want you to miss by a foot, in *front*." And what do you know— actually did hit it. When Jerome Cramer, Team *FYI*'s top gu seemed to be lunging at the targets with his shotgun, Da chuckled and said, "I think you need a bayo-*net* on the end that!" Jerome stopped lunging.

When, an hour into my humiliation, I became constipated ing simultaneously to remember a half dozen pieces of advice, . Judah diagnosed the problem as "analysis paralysis." otgunning, like golf, sooner or later boils down to forgetting rything you know and Being One with the Gun. In golf, it's the Ball." In shooting, it's "Look for the 'Made in Taiwan.'" is particular Zen koan had to be explained to me: i.e., don't for the clay pigeon; aim for the fine print stamped on it. Sure ng. Easy enough, at 45 yards and traveling 50 miles an hour. te that sporting clays differ from golf in one key respect: It is sidered *not done,* to say nothing of *not smart,* to hurl your gun ay in disgust after missing a shot.

Having Dave Judah and Dave Butz for instructors was like ing Einstein and Stephen Hawking correcting your math nework. I spent the mornings blasting away at orange-blaze cs hurtling through the green glades in humbled awe.

It was also humbling to hold in my inept mitts the shotguns t Dave and Bill Baker, the impresario who had put together adventure, had brought along. Here I go being vulgar again, the four shotguns had an aggregate value of $143,460. Our ar-al consisted of a

- Beretta SO5 Sporting, 12-gauge, over/under, 32-inch barrel ($18,375);
- Holland & Holland Sporting Deluxe, 12-gauge, over/under, 28-inch barrel ($62,500);
- Krieghoff K-80 Sporting, 12-gauge over/under, 32-inch barrel ($12,585). This was Dave Butz's gun—with a custom-

A Benz in the road

itted stock made for him by Fred Wenig—which I nick-named the Gun of Navarone and am still sore from lifting;

- Galazan A. Galazan Round-Frame Full-Sidelock, 20-gauge, over/under, 29-inch barrel ($50,000, and as beautiful a piece of gunsmithing as ever to come out of ny home state of Connecticut).

Can you spot the NFL defensive tackle?

These are not guns you want to drop. Needless to say, we managed to do just that—and, naturally, to Dave Butz's Krieghoff, damaging it badly as it hurtled off the back of a golf cart after an abrupt start. Dave was a gentleman about it, but for a few very quiet, smoldering minutes you could hear the low rumble of lava welling inside him, and I had an inkling of what it must have been like to face this formidable man across the line of scrimmage. I was heartily glad never to have held that luckless office.

We said our grateful good-byes to Dave Judah and drove on to The Greenbrier, across the border in White Sulphur Springs, West Virginia. The Greenbrier is a four-star resort hotel that, like The Homestead, has been around since 17-something, but never burned down, though Union soldiers threatened to torch it during the Civil War. It is first-rate in every way, which is doubtless why Congress built a secret bomb shelter—"Project Greek Island"—for itself here during the Cold War. This was the aboriginal "undisclosed location." The food at The Greenbrier is especially superb. Unfortunately, so are the rum punches at Sam Snead's, the informal restaurant named after the golf legend who was the resident pro here for many years.

As it happens, I was reading Thackeray's *Vanity Fair.* The

Riding shotgun

following fragment from that worthy novel sums up my feeling upon opening my eyes the next morning: "...there is no headache in the world like that caused by Vauxhall punch." At my age, one should really know better, but then as Tom Stoppard has said, "Age is a very high price to pay for maturity." Slowly, I reached for the Advil, contemplating joyfully the prospect of three hours with a piece of exploding metal next to my temple.

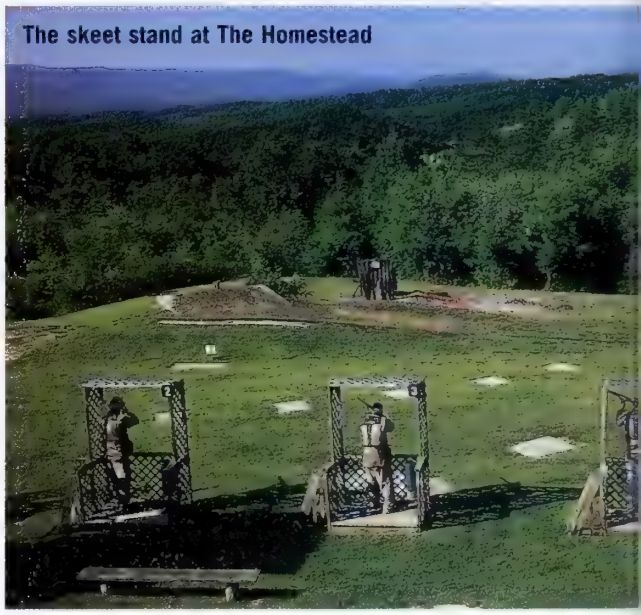
The sporting clays course at The Greenbrier is second to none. It is almost brand-new, designed by the British duo Justin Jones and John Higgins. The stations are inventive and challenging, the appointments superb, down to the outdoor-carpet lining in the shotgun shell trays on the stands. All very pukka.

Our instructor today was Curtis Kincaid, a jolly fellow who dispensed wisdom and tips in a plummy local accent. Station #7 was particularly challenging: the high "bird"—simulating driven pheasant—soaring overhead at 45 yards, so high that Curtis admonished us to "miss it" by ten feet in front. (This "miss it" business seems to be a theme among the Zen masters of sporting clays.)

To everyone's astonishment, I managed to hit it, several times. I'll say this for a Vauxhall punch hangover: When your only goal is trying to remain upright, you don't worry about missing, a relax. Even Dave was impressed. But Dave was himself, for second day in a row, most impressive of all, with an identical sc of 84 out of 100. While I myself would be thrilled to shoot Dave normally shoots in the 90s and was handicapped by the f that we were rotating different shotguns. My own scorecards h been somehow misplaced. What a loss to posterity.

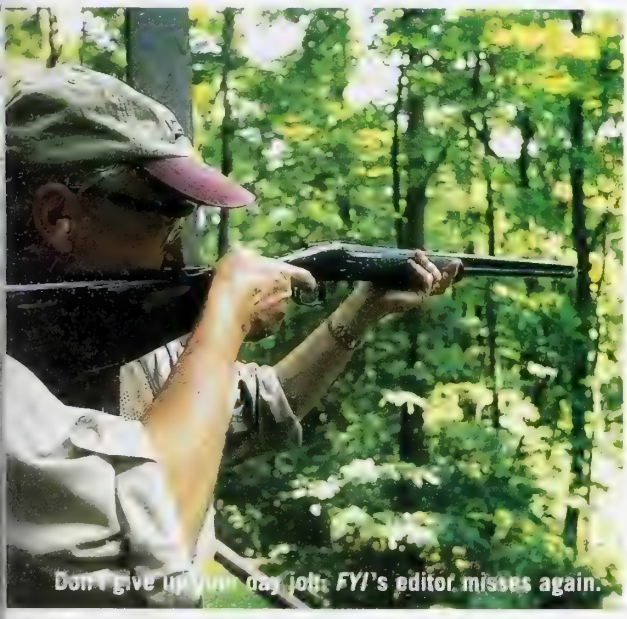
It was now time for the off-road adventuring. The Greenbr offers a course in this pastime called the Land Rover Driv Experience. There are ten hours' worth of trails to satisfy ev nonpavement driving fantasy.

Our instructor was the wonderfu named (and wonderfully companio able) Randi Arbuckle, a cheerf khaki-clad dominatrix of four-whe ing. Here our $380,000 worth—I ally must stop mentioning this— SUVs got the chance to show th stuff. We plowed through mud a over boulders and tilted 45 degr sideways. We learned the rudime of off-road driving, some of which counterintuitive, such as braking with your left foot. This c down on reaction time, which is a good thing to cut down when, say, you are hurtling down the side of a mountain.


The skeet stand at The Homestead

I was invited to drive three tons of Cadillac down a hill, th were it a ski slope, would be a double black diamond. Randi, s ting beside me, told me afterwards that there is really no poin blubbering and mumbling, "Into thy hands, Lord, I comme my spirit" while doing this. Anyway, she explained, most of t cars we drove had something called "hill descent control." T onboard computer takes over the braking, basically.

ly 12-year-old son's Game Boy has more computing power the computers that supported the moon landing in 1969. e fact, actually.) These cars combined have more computing er than HAL, the computer in *2001: A Space Odyssey.* taphor.) The door locks in the Mercedes, for instance, had y of snapping shut 20 or so seconds into the drive, as though lecision were being made in Stuttgart.



Don't give up your day job: *FYI*'s editor misses again.

lrove the Mercedes through the mud portion. Its black in- has a very military feel to it. There are three separate but- controlling the front, center and rear locking differentials. is the car that could get you from one end of Africa to the , or up the vertical side of a skyscraper, albeit slowly.

one of us ever quite mastered the navigational systems on ars, but then this would have required doing something that has resisted since the Dawn of Time, namely reading the al. That said, the instruction booklets for these vehicles ined are as thick as the New York City phone book. When growing up, the most exotic option on a new car was r seats and a tape deck. Bose speakers, remote keyless entry, net access capability, emergency SOS, homelink wireless ol system, park distance control, heated front wipers, rain- ting wipers, overhead airbags, seatbelt pretensioners and r system were not something you gave much thought to on ealer floors of my youth. Someday I would love to see the ction manual on a nuclear submarine. Do they too, I won- ave six-speed Tiptronic transmission with overdrive?

at night over drinks we compared notes on the cars. We ap- tly weren't drinking rum, since my notes are quite legible. e general consensus was that we wanted to own all the cars ll of the guns.

ith that scientific evaluation done and out of the way, we able to concentrate on dinner.

d I mention that they cost half a million dollars? •

Strategic Intelligence

2004 PORSCHE CAYENNE TURBO

$93,045*
Turbo four-door;
6-speed Tiptronic
V8 450 HP
Mileage (City/Highway):
13/18

2004 MERCEDES-BENZ G500

$78,340
Four-door;
5-speed touch-shift
V8 292 HP
Mileage (City/Highway):
13/14

2004 CADILLAC ESCALADE ESV PLATINUM

$68,730
Four-door AWD;
4-speed automatic
V8 345 HP
Mileage (City/Highway):
13/17

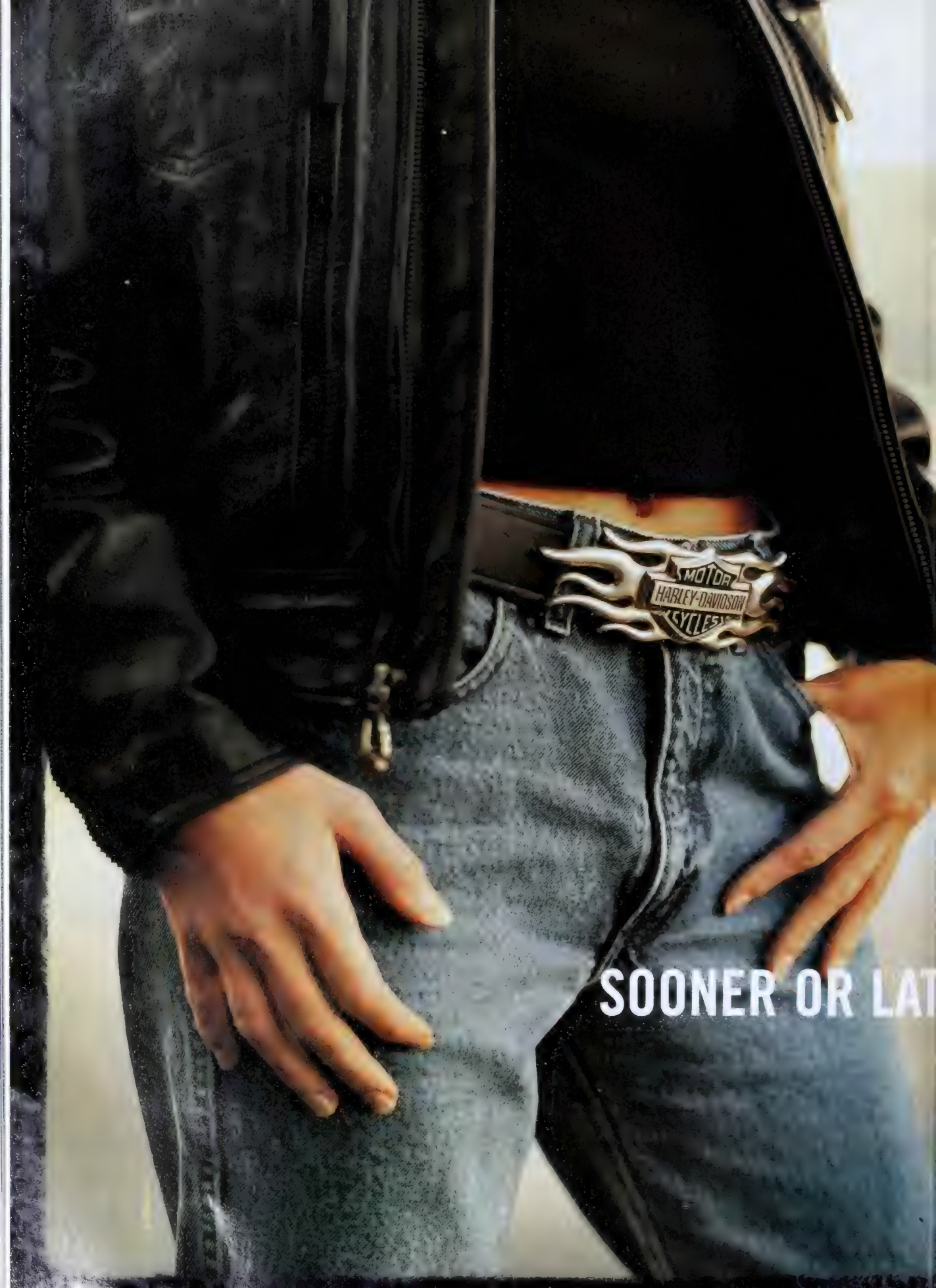
2004 LEXUS LX 470

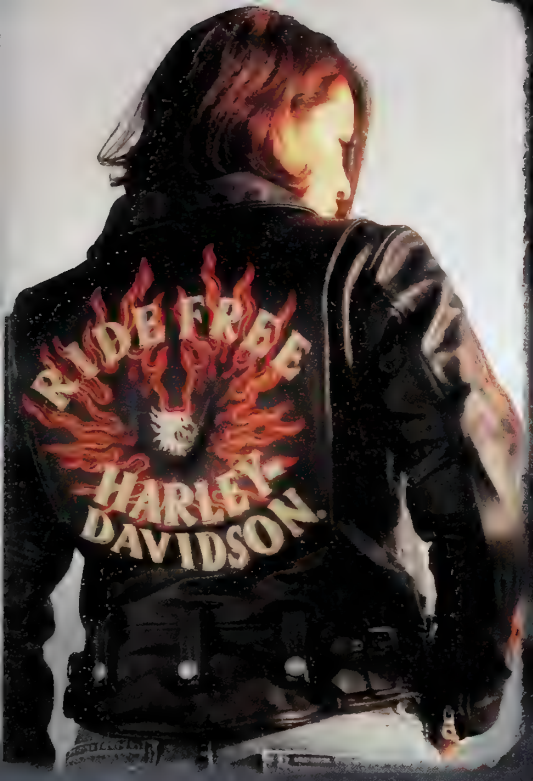
$70,316
Four-door 4X4;
5-speed automatic
V8 235 HP
Mileage (City/Highway):
13/17

2004 LAND ROVER RANGE ROVER HSE

$74,250
Four-door AWD;
5-speed CommandShift
V8 282 HP
Mileage (City/Highway):
12/16

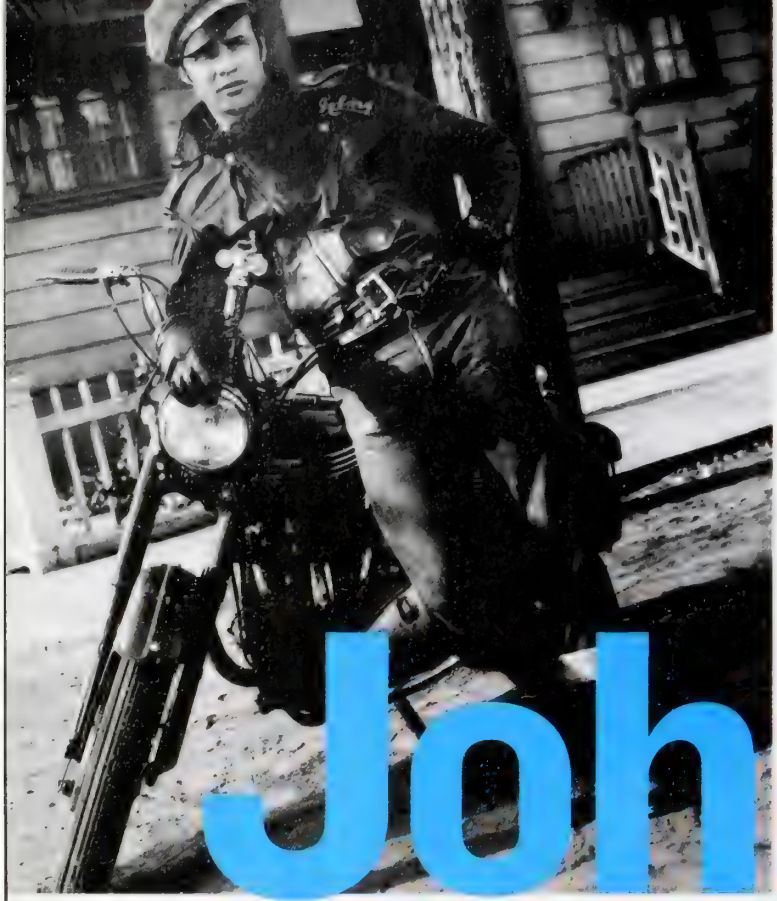
* Prices with options added


MOTOR
HARLEY-DAVIDSON
CYCLES
SOONER OR LAT



OU'VE GOT TO PLANT THE KICKSTAND.

Harley-Davidson® MotorClothes® apparel and accessories. Good for riding. Good for those in-between when you're not. Every detail made to live how you do. Like everything we design. Leather to denim. All-weather gear to kids' gear. XS to 5XL. Only at your dealer. www.harley-davidson.com.



Hey, Johnny, What Are You Rebelling Against?

Fifty years ago bad boy Brando starred in *The Wild One*—and the motorcycle jacket roared into fashion history.

By Mike Salisbury

THE FRONT WHEEL OF THE TRIUMPH LIFTS, SPINNING IN slow motion at the bottom of the Santa Monica Incline. It drops onto Pacific Coast Highway and heads north. Faded mansions of dead movie stars desperately cling to the sky, their footing crumbling on sandy cliffs hundreds of feet above the asphalt. The blue sea glitters and the ocean breeze is filled with the scent of salt water and sage rising from the hot, empty road, the abrupt western dead end of L.A.

From here it is 18 miles to the Rock Store, the mythic diner on the Mulholland Highway high up in the dangerously dry Santa Monica Mountains. On weekends hundreds of motorcyclists converge to compete for shade under the Rock Store's sparse oak trees. They pull in on choppers and hogs, on vintage machines and tricked-out sport bikes that can line the road for hundreds of yards. Everybody's from L.A., and everybody's on.

• Giorgio Armani freshens up the biker image with a butter-soft, cream-colored leather jacket, $1,048, from Armani Jeans.

• Black leather, yes—but trapunto-stitched shoulders and elegant hardware mean this Calvin Klein Collection jacket, $2,043, isn't roughing it.

For 30 years I've lived and worked on the edge of the L.A. media machine. I've hung with the hard cases, the low-percenters, nouveau-urban bikers, stars pretending to be bikers, bikers pretending to be stars, fakes, flakes, the famous, the infamous and the real. No matter what the identity they were pitching—or hiding—all of them seemed to instinctively know that nothing makes you appear more tough and confident than black-leather biker cool.

Perhaps the poseur's most famous patron saint is depicted in a once-nearly forgotten movie still for producer Stanley Kramer's controversial 1954 film *The Wild One.* A soulful young Marlon Brando leans on the tank of a motorcycle, a 1950 Triumph Thunderbird 6T. A cap is cocked to one side of his head, showing a black sideburn on the other side. "Johnny" is lettered in script on his black jacket. Johnny Strabler. Original American badass.

The Wild One was based on an incident that occurred on July 4th weekend in 1947 when 4,000 outlaw motorcyclists, led by the "Boozefighters," reportedly took the town of Hollister, California, hostage in a 48-hour orgy of brawling and beer, an event that directly led to the formation of the Hells Angels.

The film's director, Hungarian immigrant László Benedek, cast Brando as the leader of the "Black Rebels Motorcycle Club"—and Lee Marvin as his hotheaded rival—who terrorize the small town of Wrightsville. Johnny and his gang, decked out in leather and blue jeans with cuffs rolled up five inches above their black boots, range drunkenly around town spouting wisecracks such as, "What do you hicks do around here for kicks?" and, "Oh, man, we just gonna *go*." In perhaps the film's most memorable exchange, a girl asks the gang leader, "Hey, Johnny, what are you rebelling against?" Replies Brando with a world-weary sigh, "What've you got?"

So worrisome was the prospect that the film might legitimize teenage rebellion that the British Board of Film Censors banned *The Wild One* for the next 14 years.

But the poster boy for youthful abandon was already launched, and his uniform was the leather motorcycle jacket. Bikers wore leather because it was a tough second skin: It protected against road rash in a wipeout; it also deflected knives and blunted the blow of brass knuckles. It was young America's chain mail.

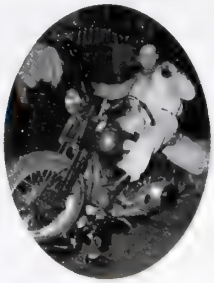
Little did these rebels of the 1950s know, or care, that leather clothing could be dated back at least 5,000 years. Since then, every generation, from Joseph Goebbels to Sid Vicious, has reinvented it. But one thing never changed: its ability to "invest the wearer with a certain power," according to Mick Farren in his book *The Black Leather Jacket.* World War I ace Manfred von Richthofen began

1917

The Perfecto's forerunner, worn by WWI's notorious Red Baron: shorter than a trenchcoat—and more dashing.

1943

Returning WWII Army Air Forces veterans brought flight jackets home for civilian use. At the same time, motorcycle jackets by Schott, Indian and Harley-Davidson were gaining popularity with motorcyclists.



1947

Over the July 4th weekend, 4,000 bikers descended on the small town of Hollister, CA, wreaking havoc and contributing to a mythic back story for what would become the Hells Angels Motorcycle Club.

1954

László Benedek's cinematic retelling of the Hollister incident in *The Wild One* launched two icons: Marlon Brando's Johnny Strabler and the Perfecto "One Star."

1969

Late-'60s counterculture included hippies, bikers and an emerging new phenomenon—rock 'n' roll gods. Peter Fonda (in *Easy Rider*) and Jim Morrison made anyone dressed in a conservative cloth coat look old-fashioned and uptight.

wearing one when he and his fellow fliers cut their long leather trench coats off at the waist. (Forty years later, Johnny Strabler also borrowed the Red Baron's cap.) Leather jackets came home on the backs of thousands of WWII veterans of the Army Air Forces.

If you bought an Indian motorcycle in the 1940s, when a biker could still ride off-road from L.A. to Tucson to El Paso, you might also buy a "Ranger" leather jacket for him and a "Rangerette" jacket for her. Even then, Harley-Davidson was involved in the accessories racket with the "Cycle Champ" jacket for men and the "Cycle Queen" model for women. Johnny Strabler wore a Perfecto "One Star" jacket from Schott manufacturers.

By the 1970s, the motorcycle jacket was street-style fashion. "I have pictures of everybody who's worn that look," says California artist Boyd Elder, who collects motorcycle jackets. "The Beatles, The Ramones, Francesco Scavullo, Mel Gibson, Bruce Springsteen, Freddie Mercury, Jean Paul Gaultier, Madonna, Dolce & Gabbana, Britney Spears and more queens of Halloween parties than you could find in the complete works of Tom of Finland." The Mods, the Rockers, the Punks. Jim Morrison even went for the leather pants, in an early foreshadowing of his excesses.

Executives at ABC's Standards and Practices who first reviewed the 1970s TV comedy *Happy Days* deemed that the Fonz's leather jacket suggested a life of "criminal, violent and homosexual behavior," according to Farren, and they insisted on a pale-blue nylon windbreaker. But what kind of rebel wears nylon, even in Milwaukee? Everyone went in for the feel of invincibility that black leather conferred on the wearer. So what if nobody in the fashion crowd was likely to be mugged with brass knuckles? At least you could look the part—dressed to kill—even if you were only having lunch at the Four Seasons.

But, then, wasn't Johnny Strabler just a softy in the end, too? By the last reel of *The Wild One,* Brando finds love with a local Wrightsville sweetheart finally cracks the outlaw's shell.

The Triumph takes me down the mountains from the Rock Store on Sunday evening, back toward PCH. It's easy for me to summon up that moment in the film when the fever has passed and the future looks full of promise. Down near the edge of Sunset Boulevard the electric light of 16 million people explodes over the dark coastal mountains like a white-water cascade. The waves break in the moonlight at First Point Malibu as a parade of hundreds of riders in leather cuts through the air and wheels toward L.A. I pull up the zipper of my own leather jacket as I head home to bed.

We're all just squares, really, hooligans with hearts of gold. •

1978

What do you wear to a revolution? The punk movement (led by England's Sex Pistols and, earlier, New York's Ramones) chose the black leather motorcycle jacket because of its working-class associations (DISCO SUCKS!)—but it didn't have much to do with riding a motorcycle.

1986

Herb Ritts' portrait of Madonna for the cover of her *True Blue* album showed the Material Girl cleverly merging two potent symbols of the '50s—Marlon Brando's black leather jacket, and Marilyn Monroe's platinum hair.

1991

Cycle couture: At the height of the supermodel era, Peter Lindbergh photographed them all in Karl Lagerfeld's quilted Chanel leather jackets and silk skirts for American *Vogue.*

2004

Dan and Dean Caten's Spring 2004 Dsquared2 men's collection was a tongue-in-cheek survey of archetypes, from beach bums to tough guys. The motorcycle jacket comes full circle, minus the aggression but with added layers of humor—and irony.

Good enough for Brando, and still made by the company that first put zippers into motorcycle jackets: the Perfecto, $369, by Schott N.Y.C. For details, see page 106.

Limited-edition leather, $1,110, by I.C.R vs. Deth Killers of Bushwick—serious gear for serious bikers.

Everything old is new again, as Ducati looks to its storied past with the Heritage jacket, $313, inspired by almost eighty years of racing history.

hic as it gets—
Slimane's body-
cious motorcycle
et for Dior Homme
ng and lean, for
ion fiends. $4,130.

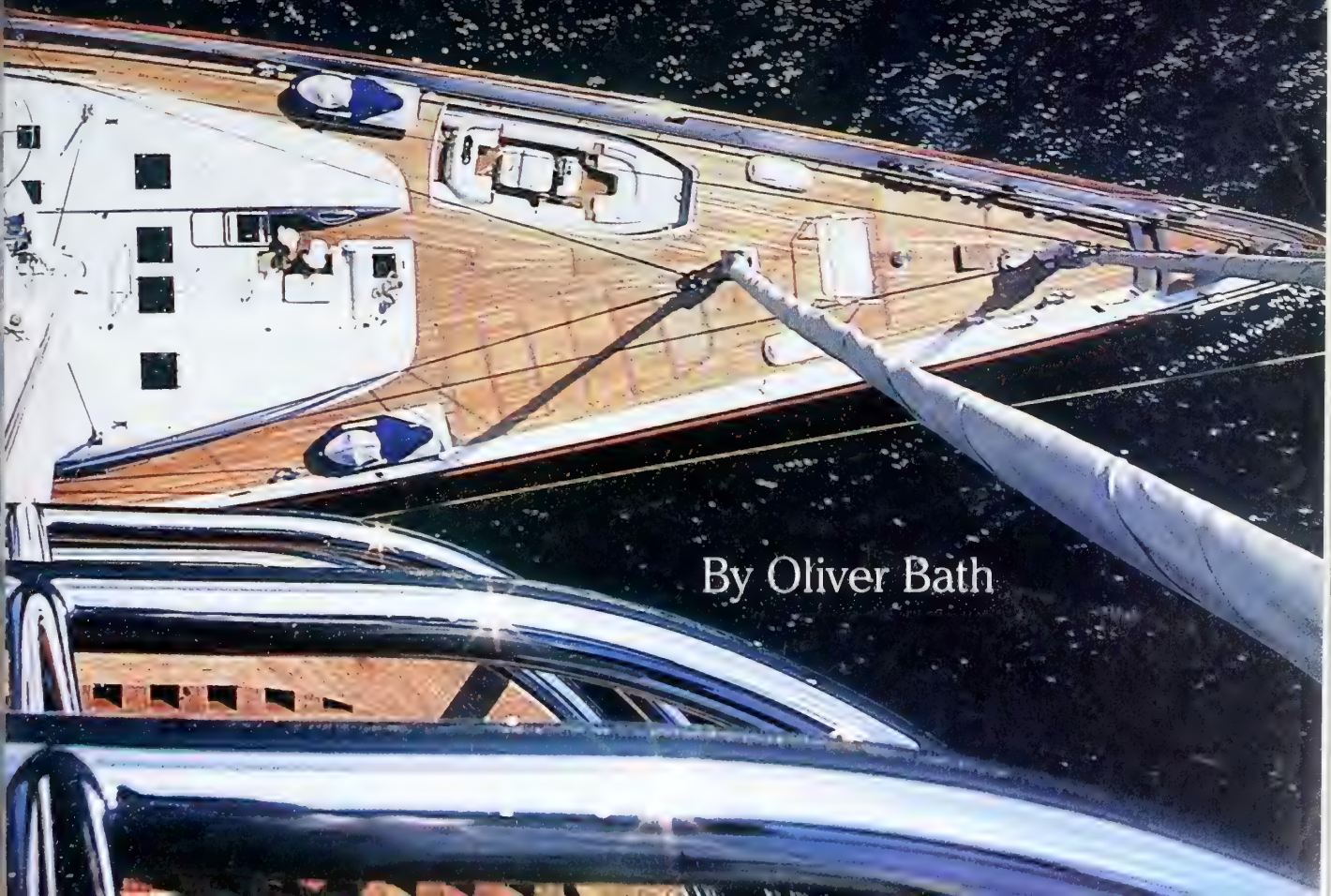
Photographs by Ron Reeves

John Varvatos combines two menswear favorites—the shearling coat and the motorcycle jacket—in one perfect piece for fall. $2,995.

Michael Kors's new MICHAEL collection offers everything a man needs in his wardrobe—including this dashing suede jacket with all the right details. $598.

Mast and Commander

After four years of planning and three years of building, Joe Vittoria's *Mirabella V* is now officially the biggest sloop afloat: 247 feet, with a 292-foot mast. . .and she's all yours for $250,000 a week.



By Oliver Bath

In the late 1980s, Joe Vittoria was seized by what any sailor would consider a magnificent obsession, namely to build the largest sloop (single-mast sailing vessel) in the world. He and his partner managed to produce three 130-foot yachts at a yard in Thailand. "And for a while," Vittoria, the former chairman and CEO of Avis, reflects, "they were the largest sloops in the world."

Then the '90s happened. Jim Clark of Netscape built the 155-foot *Hyperion,* and John Williams, former chairman and CEO of Post Properties, followed that with *Georgia,* four feet longer than *Hyperion.*

"I'm not out to have the biggest stick in town," Vittoria laughs. "My motivation grew out of aggravation over the number of powerboats in relation to sailboats. What I set out to do in '88 was to prove that you could build a distinguished-size sailboat that would give you the comforts of a powerboat."

He concedes, "I didn't achieve my aim of putting a dent in the powerboat industry. It's unbelievable what's out there now. Paul Allen just took delivery of a 400-foot boat. German shipyards now are averaging—averaging—200-foot-long yachts."

Not one to take defeat sitting down, Vittoria and New Zealand–born designer Ron Holland went to work on what would become Vittoria's fifth *Mirabella.* The result is distinctive in a number of ways, but most conspicuously in its mast. At 292 feet, this is the tallest single spar afloat. With her multipurpose genoa and seven-piece modular mainsail—designed by Robbie Doyle of Marblehead, Massachusetts—she usually flies about 360 square feet of sail. No spinnaker, though: As a British-flagged vessel, she must conform to Maritime and Coastguard Agency safety standards. The MCA would only allow a spinnaker to be flown in winds under eight knots. "Hardly worth it," Vittoria says.

The deciding factor, generally, in big-yacht mast specifications is: Can it fit under the Panama Canal Bridge? Vittoria cites yacht *Tiara,* recently launched in New Zealand, with a mast 206 feet high.

"She has to wait for a moon-low tide to get under the bridge," he notes.

Asked if he plans to take *Mirabella V* around the long way, he chuckles. "Yeah, we're going around the bottom."

He wanted a ship capable of making a speed of 20 knots; mo importantly, it had to be a sloop that would be able to sail w upwind. For that a sailboat requires a deep-draft keel. *Mirabe V*'s keel weighs 150 tons and retracts. With the keel fully dow the ship draws 33 feet; fully retracted, 13 feet. If that makes cru ing in the shallow Bahamas problematic, it makes the rest of t world her oyster.

In case you were wondering: The "official figure" is $50 m lion. Which makes her quarter-million per week charter f sound, why, perfectly reasonable. •

To charter the Mirabella V, *contact Jacqui Beadon at Jacqui Bead Yachts, 50 rue du Poilu, 06230 Villefranche-sur-Mer, France; 3 493-01-86-71, fax 33-493-01-87-86, jacqui@mirabellav.co www.mirabellayachts.com.*

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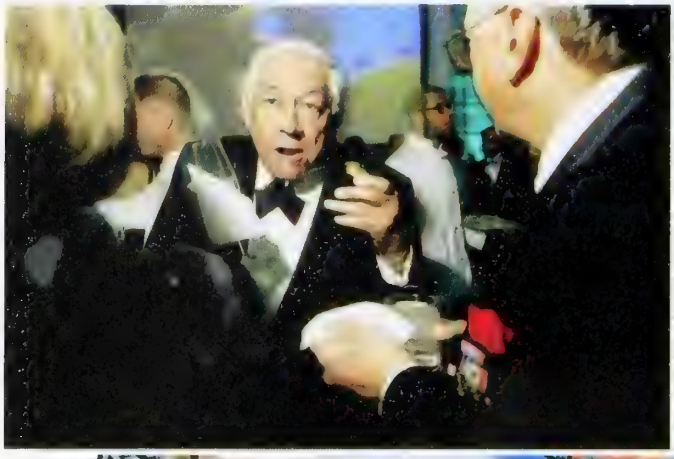


books »

ACTS OF CHARITY, by Mark Peterson; powerHouse Books; $35

When it comes to charitable giving, the richest New Yorkers are no Magwitches. If they crack their wallets for a cause like breast cancer research or landmark preservation, they expect a party in return. A big one, where they can rub shoulders with moguls, society matrons and celebrities, and maybe get a mention in the *New York Post*'s gossip column, Page Six, to boot. In some cases, up to half of the ticket receipts are spent on the parties themselves. For the past 14 years, photographer Mark Peterson has been attending various white-shoe charity functions, capturing them in all of their fabulous, sometimes garish, glory. Peterson has a knack for the charmingly decadent moment: In one shot, a woman feeds her lapdog from an hors d'oeuvres tray. In another, partygoers nibble sushi rolls under the longing gaze of a huge, caged ape. Others are plain silly: A dignified gentleman in black tie is caught with a smear of cream filling on his chin. Still more shots simply document the pomp of the scene: red carpets, Chanel gowns, elaborate coiffures and bauble-covered hands ligh clasping flutes of bubbly. —THOMAS JACKSON

JAYWALKING WITH THE IRISH, by David Monagar Lonely Planet; $15

What Irish-American hasn't dreamed of cashing out of rat race, packing up the kids and moving back to th land of his ancestors? Life the Emerald Isle is, after al

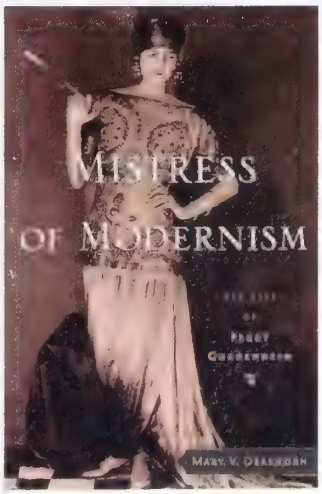
toral, merry and uncompli-
ed. Except, of course,
en it's confounding and
eless and it's been raining
three weeks. Ireland's
ed blessings are what the
nagan family discovered
ee years ago when they left
nnecticut for Cork City,
l now their odyssey is told
David Monagan's funny and
ering *Jaywalking with the*
h. Frank McCourt (*Angela's*
es), who knows a thing or
about Hibernian pranksters,
nkers, saints and dreamers,
tes of this reminiscence,
u won't find a better or
er depiction of Ireland than
one."—PATRICK COOKE

STRESS
MODERNISM,
Mary V. Dearborn;
ughton Mifflin; $28

---

rtly after opening her
t gallery, in London,
1938, 39-year-old Peggy
ggenheim offered to sell
Uncle Solomon a painting
Vasily Kandinsky for his
lgling Museum of Non-
ective Painting. Solomon's
gtime mistress, who made
his artistic decisions for
, responded promptly
his behalf. "It is extremely
tasteful at this moment,"
wrote, "when the name
Guggenheim stands for an
ideal in art, to see it used
for commerce so as to give the
wrong impression, as if this
great philanthropic work was
intended to be a useful boost
to some small shop." After
sharing the note with several
of her collaborators—including
renowned critic Herbert
Reed and legendary artist-
provocateur Marcel Duchamp—
she calmly tucked it away,
and set out to change the
course of art in the 20th
century. That she succeeded,
arguably having a greater
impact than her uncle, is all
the more extraordinary given
the madcap life she led,
intent on escaping her staid
Upper East Side roots. As
Mary V. Dearborn writes in her
entertaining new biography,
"Peggy was the rebel of
the philanthropic Guggenheim
family." Thirteen years old
when her father squandered
his fortune and went down
with the *Titanic*, she grew
up in relative poverty—her
inheritance would be worth a
mere $5 million today—a
second-class citizen in a world
defined by money. Marriage
to an American expatriate
ne'er-do-well was the first
stage in her flight, and divorce
the second, after which
followed a string of affairs
with everyone from Duchamp
to Samuel Beckett (scarcely
interrupted by marriage to
surrealist Max Ernst). But if
her bed was her springboard,
her gallery, relocated to
New York after World War II,
was the platform from which
she'd launch the careers
of American artists such as
Jackson Pollock and Mark
Rothko, facilitating the
passage of artistic influence
from Europe to the United
States. Ultimately, her "small
shop" even provided a useful
boost to the Museum of Non-
Objective Painting (renamed
the Solomon R. Guggenheim
Museum). Donating the col-
lection of 263 artworks she'd
acquired in her commercial
dealings, she added to the
holdings certain not-altogether-
insignificant artists her Uncle
Solomon's mistress had missed,
among them the surrealists.
—JONATHON KEATS

"Peggy was the rebel of the philanthropic Guggenheim family."



EXTREME WEATHER,
by Christopher C. Burt;
Norton; $25

Ever heard of an illuminated
tornado? How about a
superbolt? Heat bursts? These
are just a few of the thrillingly
destructive phenomena
described in this new guide to
earth's strangest, nastiest
weather. Part *Farmer's*
Almanac, part *Guinness Book*
of World Records, Extreme
Weather is a cornucopia of
statistical charts, maps, photo-
graphs and infographics, all
strung together with snappy,
lucid text. Author Christopher
Burt, a meteorologist and
publisher, starts out with the
basics—heat and drought,
snow and ice and rain and
cold—then moves on to racier
stuff like tornadoes, hurri-
canes, thunderstorms and
hail. Interspersed throughout
are jaw-dropping anecdotes,
like the one about Marine
Corps pilot William Rankin,
whose F8U failed at 47,000
ft., right on top of a severe
thunderstorm. He bailed out,
fell 37,000 ft. and deployed
his chute, whereupon he *rose*
6,000 ft. For the next 45
minutes, the poor man was
yanked up and down like
a cheap marionette. Or there's
the time in Marksville,
Louisiana, back in 1947,
when it rained fish.—TJ

MASTERPIECES OF AMERICAN JEWELRY, by Judith Price; Running Press; $30

This fall, the National Jewelry Institute will hold its inaugural exhibition at the American Folk Art Museum in New York City. The show will include plenty of pieces by Tiffany & Co. and Harry Winston, as well as some real treasures by lesser-known designers like Paul Flato and Daniel Brush. For those who can't make the trip to New York, the Institute is releasing this companion volume, which includes many of tl 210 pieces featured in the show. It's a dazz array of masterworks, bou to give newfound appreciat for the fine craftsmanship produced on these shores. *The show runs from Augus 20 to January 23, 2005.*—

cds

THE ESSENTIAL ROY ACUFF; Columbia/Legacy; $12

Known as "The King of Country Music" and, more improbably, "The Backwoods Sinatra," Roy Acuff was "hillbilly" music's biggest-selling star of the 1930s and 1940s, some years outpolling even Ol' Blue Eyes himself ("The Lounge Lizard Acuff?"). Acuff's rise began unpromisingly. Walking away from a bright minor-league baseball career (attributed by some sources to an injury, by others to a nervous breakdown), he took up the fiddle and joined a traveling medicine show. By 1938, he had played his way onto the Grand Ole Opry, where he would remain a fixture for decades, announcing his famous, quixotic run for governor of Tennessee from its stage. Acuff's bands, most notably the Smoky Mountain Boys, were beloved for eschewing any element of the pop sound even then creeping into Nashville, and focusing instead on traditional mountain music and religious songs with one important new spin: Clell Summery's Dobro, which adds a twangy throb to many of the great hits on *The Essential Roy Acuff* (at least the second release by that name since Acuff's death in 1992). The disc contains signature recordings of "The Great Speckled Bird," "Wabash Cannonball" and "Wreck on the Highway," with a few surprises, like a robust, haunting version of "Blue Eyes Crying in the Rain."—RICHARD NALLEY

LEFT OF THE DIAL: DISPATCHES FROM THE '80s UNDERGROUND; Rhino Records; $65

By the end of the 1970s, classic rock and punk giants had carved out the rough edges of what defined rock. The refinement of that definition would be left to the "underground" bands of the following decade. Almost every one of the 82 groups

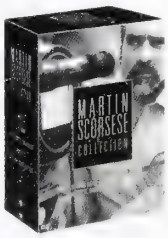
featured on the 82 tracks of thi collection created its own partic emotional world, its own narrow genre. Certain tracks stand out as timeless gems: the gleeful irreverence of the Dead Kenned "Holiday in Cambodia," the acerbic, distorted, dance music of Gang of Four and Killing Jok the homemade absurdities of the Meat Puppets; the whinings the Violent Femmes; Faith No More's nihilistic anthem "We Ca a Lot." There are a few lapses here and there: The polished, synthy pop of bands like Echo and the Bunnymen, Depeche Mode and Ultravox seems out c place. But for anyone who came of age in the '80s, these four CDs are a trip back to the heady days of spiked hair ar Doc Martens. For everyone else, it's a chance to hear what you missed.—MICHAEL ABRAMS

JANE MONHEIT, Taking a Chance on Love; Sony Classical; $19

Listening to Jane Monheit's new CD, *Taking a Chance on Lov* leaves one wondering just how this 26-year-old could possibl have achieved the smoky, seductive soulfullness of a singer twice her age. Making fine use of Diana Krall's producers Al Schmitt and Peter Asher, Monheit runs through a gorgeously arranged sampling from the Great American Songbook, includ "Love Me or Leave Me," "Why Can't You Behave" and "Honeysuckle Rose." Monheit has an urbane, sophisticated sound that places her in the compa of talented cabaret singe such as Nancy LaMott, Tierney Sutton and Krall herself. Her rendition of "Over the Rainbow" is beyond sublime.—PC

GREAT ADAPTATIONS; Criterion Collection; $100

The pages turn, and the words flow: "So, I called myself Pip, and came to be called Pip..." But the book is made of celluloid—it's the opening shot in David Lean's 1946 film of Charles Dickens' *Great Expectations*, now packaged with three other classic books-to-film in this collector set entitled *Great Adaptations*. Along Pip's well-worn tale of Magwitch Miss Havisham, the box contains 's interpretation of Dickens' *Oliver st* (1948), featuring Alec Guinness as n. Fans of Lean's later epics, such *Dr. Zhivago* and *Lawrence of Arabia*, be surprised yet thrilled by the ness of these earlier works, with their pacing and Victorian melodrama spiced with wry humor. The next film in the set is *The Most Dangerous Game* (1932), a campy thriller made by Ernest B. Schoedsack and Merian C. Cooper, the team that would sic King Kong on the world a year later. And last but not least, Peter Brook's jagged, experimental *Lord of the Flies* (1963), based on William Golding's fable about schoolboy castaways who descend into savagery on a Pacific isle. Though amateurish, the child actors in the film feel real, and the gray, asymmetrical visual compositions develop a mesmerizing power.—MATTHEW REED BAKER



THE MARTIN SCORCESE COLLECTION; Warner Home Video; $60

Martin Scorsese is best known as the premier auteur of modern cinematic violence, but this five-film set showcases his skill as a storyteller of a different type. Sure, there's the requisite inclusion of the extraordinary *Goodfellas* and its spiritual godfather, 1973's *Mean Streets* (the exceedingly verbose Scorsese provides terrific commentary for both) but some moviegoers may not recall that he also directed the giddy urban nightmare *After Hours* and the quintessential women's lib flick, *Alice Doesn't Live Here Anymore*. The former film, featuring a young Linda Fiorentino, is as fun as ever, although the latter doesn't stand up as well—Scorsese is a magician with a camera, but he's a bit lost when the subject is a law-abiding single mom. In *Who's That Knocking on My Door?* (1967, and starring an unsettlingly youthful Harvey Keitel), Scorsese explores the wise-guy themes—Catholic guilt, the Madonna/whore complex—that permeate much of his later work. Taken as a whole, the set provides evidence that Scorsese could credibly be considered America's most versatile filmmaker of the past four decades.
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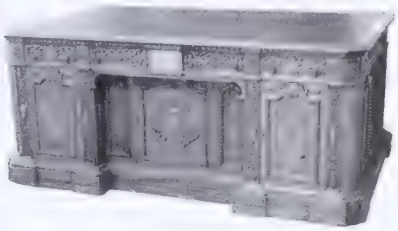

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Checking In, Sir?

This year *Andrew Harper's Hideaway Report* celebrates 25 years of grand deception. The popular newsletter's creator and editor in chief, whose real name is known but to God (and his wife), has paid his own way at thousands of hotels worldwide and published his impressions without fear or favor. We recently met him at a secure location in downtown Manhattan.

We've heard that some hotels brag that they know exactly who you are when you check in.

Oh, I get that a lot. I was sitting at a hotel bar in Oregon one time, when a Porsche pulled up outside the window and the bartender leaned over to me and said, "See that guy getting out of the car? That's Andrew Harper, the mysterious hotel reviewer. He comes in here all the time. He thinks we don't know who he is." "My," I said. "That's fascinating."

Do you have a preference for new or old hospitality?

I prefer the more traditional hotels, the classics like the Carlyle. I'm sick of the words "edgy" and "trendy." They usually mean "uncomfortable." "Cutting-edge" doesn't mean quality. Let's face it, some of the best hotels in the world aren't new.

Is it the increasing level of hype that bothers you?

Yes, and also this whole focus now on celebrities. Hotels and resorts endlessly name-drop: "Ben Affleck stayed here!" Well, so what? Does that really mean *I'm* going to enjoy it?

What immediately tips you off that you're in a great hotel?

The service. Always. The Four Seasons in Chicago, for example, has the greatest doormen in the world. They lift you right up the moment you arrive. Conversely, you know you're in for a bad experience when you're greeted with attitude. If it starts at the front desk, you'll get it right down to the gardeners.

But don't some places go overboard with obsequiousness?

Yes, some of it's fake. At the Ritz-Carlton, for instance, every guest's request is answered with "My pleasure." And you think: Well, no, it's not. How can cleaning up my breakfast tray be your pleasure? It's not sincere.

How do you strike a balance?

I think it has to come naturally. Look at the Fijians and the Thais. They don't need human-resources training. It's all from the heart. It's the way they were brought up. It's natural to them.

In what way have your fellow travelers changed?

Mainly in dress. One of the saddest changes is that you ne see a gentleman in the Caribbean wearing a jacket and tie dinner anymore—except maybe for the Dunmore Beach Cl on Harbour Island.

Are Americans too fearful of traveling abroad?

Americans are geographically challenged. They see som thing on CNN about trouble in Saudi Arabia and they can their trip to Italy. In fact, much of the world is a quite frien place. In 25 years I've never even been robbed.

So, what's the next big destination?

The bazaars in India are some of the most vibrant in t world. South America will only get better. I love Istanbul.

If I were a sharp-eyed desk clerk, what would be a good clue t the guest in front of me was Andrew Harper?

Hey, not on your life....I will tell you this, though. I'm sucker for a nice view. But then again, so are a lot of people.

Andrew Harper's Hideaway Report *is available for $135 a ye To subscribe: (800) 235-9622 or www.andrewharpertravel.co*

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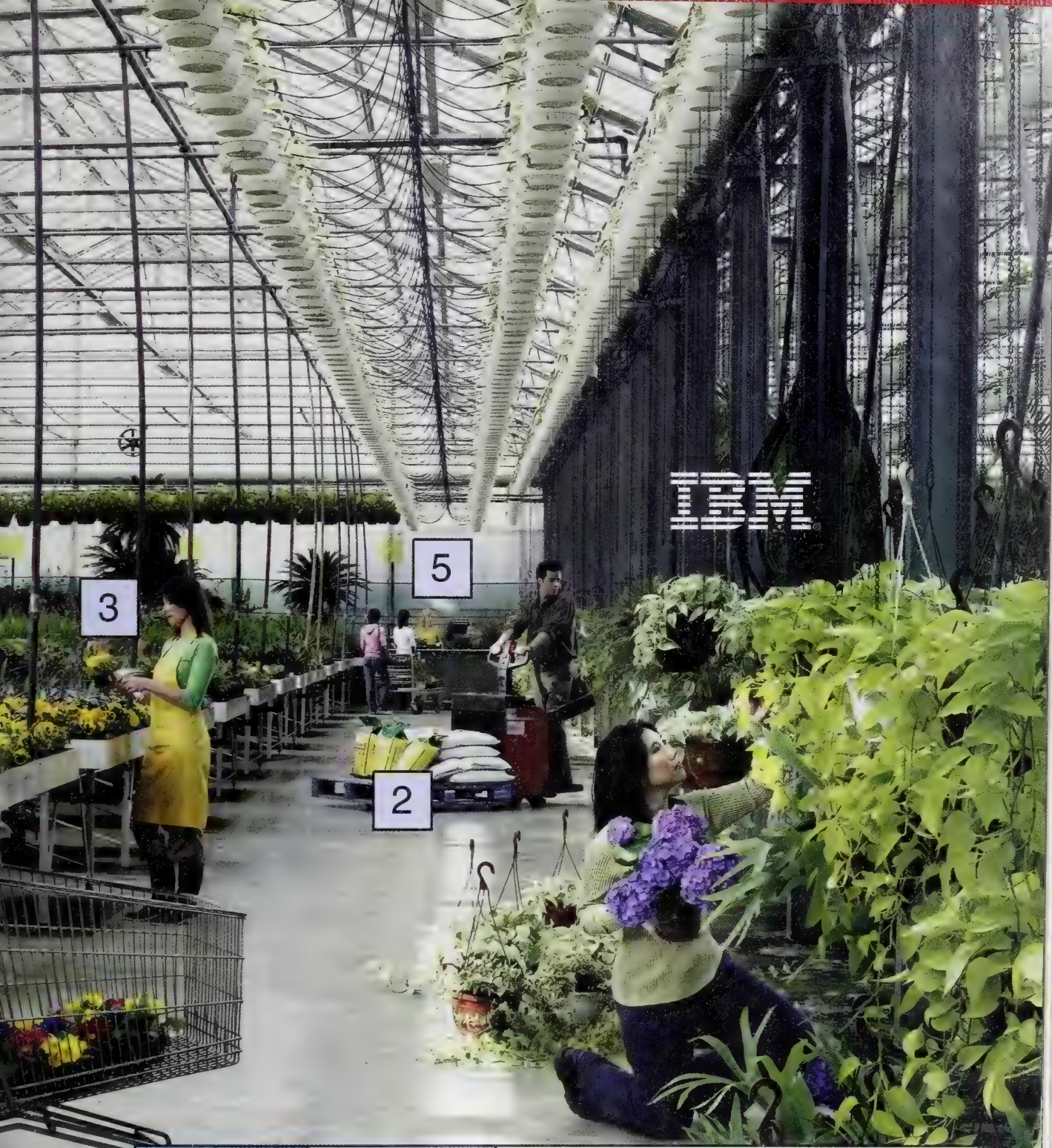

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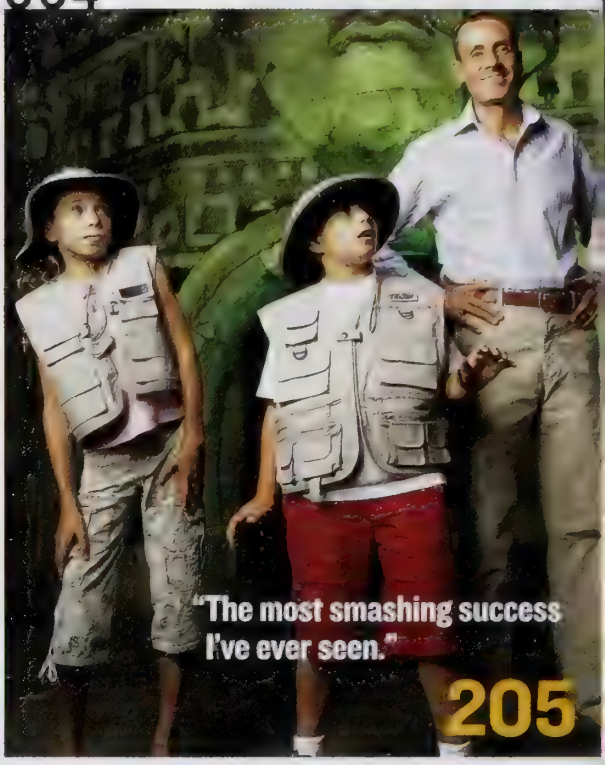

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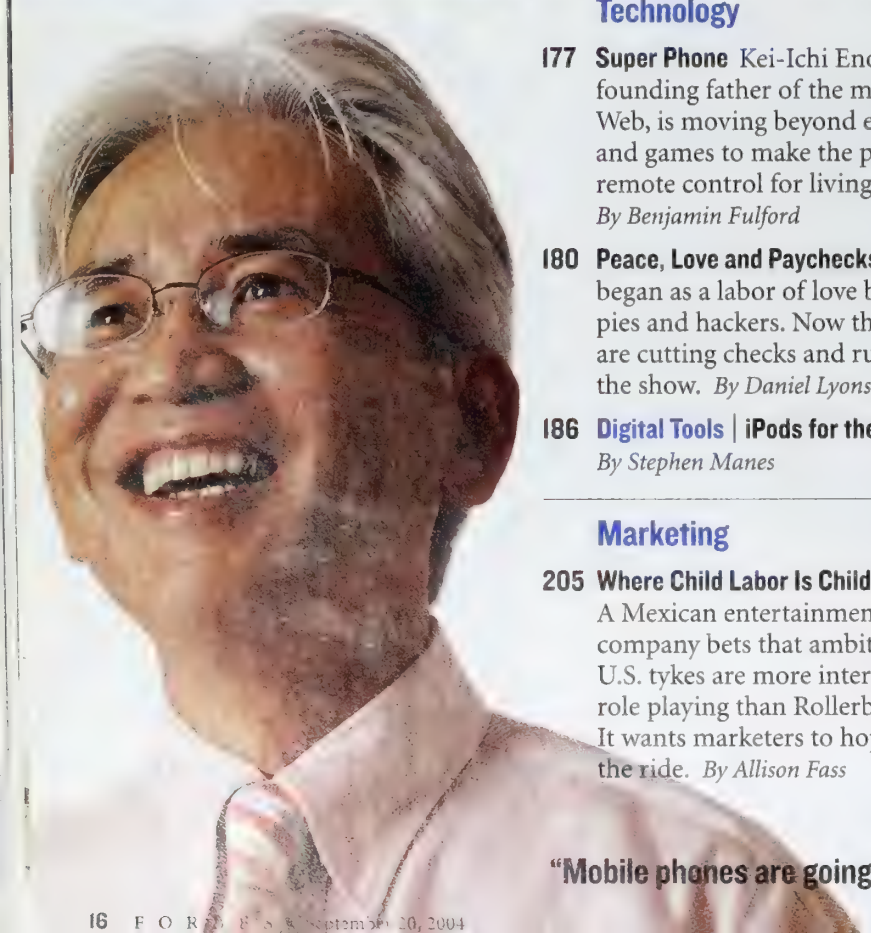

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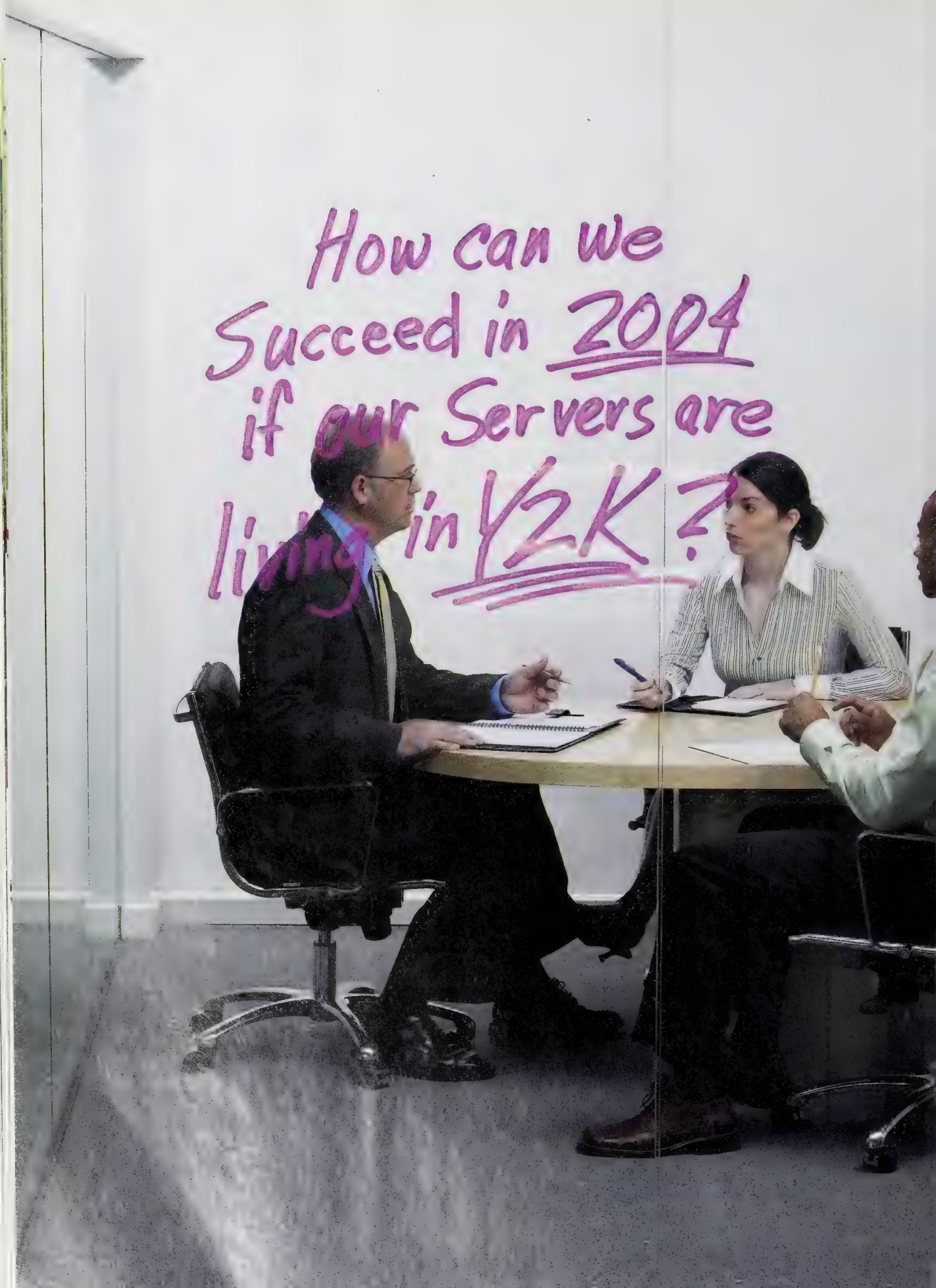
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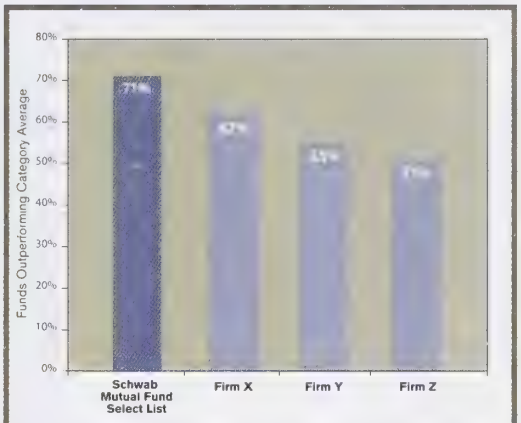

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BD FINDS UPS ORDER TO CASH SOLUTIONS ARE JUST WHAT THE DOCTOR ORDERED.

BD, a leading global medical technology company based in Franklin Lakes, New Jersey, develops and sells a broad range of health products for both consumer and clinical use. The company hired UPS Supply Chain Solutions℠ to create a more efficient distribution network for some of its product lines.

"The UPS Supply Chain Solutions team was extremely responsive to our needs," said BD's Manager of Distribution Services, Scott Baldwin. "They offered us an order to cash solution, with an emphasis on customer service and the flexibility to handle spikes and dips in volume."

UPS Supply Chain Solutions worked closely with BD to ensure a smooth rollout of the new distribution network. The transition required outsourcing the product inventory from three BD distribution centers to one UPS® managed distribution center. It also required transferring IT data to a UPS call center system.

The changeover was conducted during a weekend to ensure the system would be up and running the first business day with minimal service issues. "The UPS Supply Chain Solutions team was diligent and thorough," said Baldwin. "They thought of potential issues and resolved most of them in advance. And they did it all within a short time frame."

Today, buyers for major national retail chains transmit orders to the BD dedicated line at the call center to place orders. The call center sends the information electronically to the UPS Supply Chain Solutions distribution center where the orders are picked, packed and shipped. All orders are shipped within 24 hours, and orders received before 2 p.m. are shipped the same day. The call center invoices customers on BD letterhead and collects payments which are posted to a BD account.

"The business has been running smoothly and consistently with UPS Supply Chain Solutions," Baldwin said. "We are extremely pleased with the performance indicators for shipping accuracy and on-time delivery."

UPS Supply Chain Solutions continually seeks to add value and enhancements to BD's supply chain. When a major retailer wanted BD products repackaged into smaller cases within two weeks, UPS Supply Chain Solutions was able to quickly fulfill the request and help BD win a contract for the new business. To tighten inventory control, UPS Supply Chain Solutions tailored a cycle count program to help identify and clear nonselling stock.

> ***"The UPS Supply Chain Solutions team was extremely responsive to our needs."***
>
> *—Scott Baldwin, BD's Manager of Distribution Services*

Warehouse racking was reconfigured to accommodate new products and overflow inventory. To further improve their customer satisfaction, UPS Supply Chain Solutions worked with BD to build multicase orders into single boxes.

"The UPS Supply Chain Solutions team consistently recommends new ways to improve our supply chain processes," Baldwin said. "As a result, our customer satisfaction is high and we have experienced significant savings."

BD is now planning to launch an e-commerce website for the consumer health product line, backed by the UPS Supply Chain Solutions distribution network. "We know that we can count on UPS Supply Chain Solutions to continue to support us as our business needs evolve," Baldwin said.

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SIDE LINES

Peekaboo! Tracy Stouffer has been picking overseas stocks for the Dreyfus Founders Passport Fund for five years. She must have a nose for the good ones. In a difficult market she has turned in a decent performance (2.2% a year)—after costs that can best be described as indecent.

What are those costs? Start with the "expense ratio," defined to include the money manager's fee plus overhead for things like mailing prospectuses. This number is easy to get (and is used in the cost efficiency ratings at forbes.com/funds). For a $10,000 investment in Passport's Class A shares you're spending $245 a year.

Not easy to get: the amount spent on brokerage commissions. For Passport this is an important number because Stouffer trades as if stock exchanges were going out of style. (Portfolio turnover: 700% a year.) You're not going to have any luck getting this stat from the folks manning the toll-free number. But you can calculate it yourself, from the fund's "Statement of Additional Information."

For that, go to the Securities & Exchange Commission's Edgar Web site and call up the page for Dreyfus Founders. There are 32 filings so far this year, some running to hundreds of pages, and nary a hint of which includes the SAI. Eeny, meeny, miney ... Here it is, on page 77 of the eighth document, dated May 3. Divide by average net assets and you find that for a $10,000 stake you are spending another $484 a year to keep the lights burning on Wall Street.

All told, your Passport money is swimming upstream against a current flowing at 7%. This 7% is about equal to the total return you can expect on stocks, net of inflation. In other words, if Stouffer's success at picking the good ones deteriorates to merely average, your entire return will be consumed by fees.

Why should it be an Olympic-level sport to find the brokerage costs? Why not, asks Miles Livingston, a finance professor at the University of Florida, define the expense ratio to include them?

Take this a step further. Let's have the SEC mandate a cost disclosure just like the efficiency sticker you get on an air conditioner. It would make people think twice before they buy an expensive fund.

Yes, past results matter. But costs matter just as much, because they are the one aspect of investment performance that is entirely predictable. In the funds survey that begins on page 215 we put an uncommon amount of emphasis on costs.

William Baldwin
EDITOR

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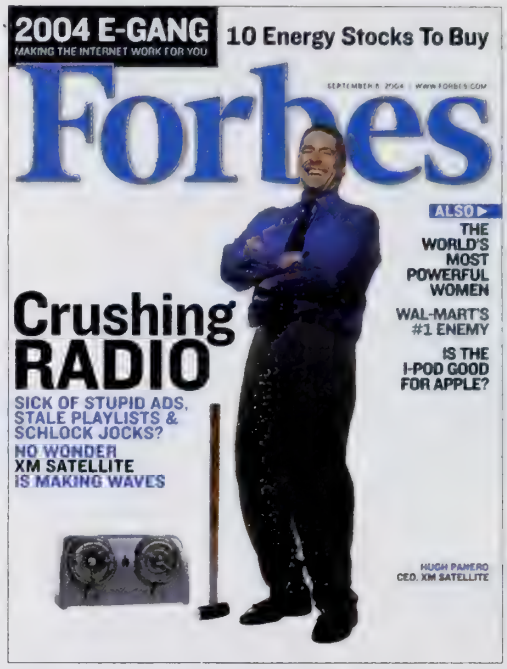

I was disappointed in "Broadcast Bullies" *(Sept. 6, p. 134)*. The real issue is that XM Satellite Radio is unilaterally flouting the terms of its FCC-granted license. FORBES describes XM's scheme of putting faux-local content on nationally distributed channels as "cleverness." This ignores the fact that XM began the questionable practice after agreeing in writing to abandon local content on its terrestrial repeater network. For over a decade satellite radio pitched itself to regulators, the investment community and customers as a supplement to local radio, describing itself as a national, niche audio service. Its recent attempts to reinvent itself as a local alternative call into question the credibility of the company's leadership.

EDWARD O. FRITTS
President and Chief Executive
National Association of Broadcasters
Washington, D.C.

You inform us that XM Satellite Radio is crushing local radio broadcasters because it doesn't offer stupid ads, stale playlists and schlock jocks. In truth, blaring and banal spots do not fill nearly 20 minutes of every hour on radio. The average is closer to 12 minutes per hour. These same "stupid" spots are the ones that allow a local retailer, auto dealer and restaurant the opportunity to capture local customers so they can employ local people to spend local dollars locally. Get the picture?

BOB BRINK
President, Forum Communications
Kalamazoo, Mich.

The "Empire" Writes Back

In "Sensei's World" *(Sept. 6, p. 126)* your complaint about the tax exemptions for nonprofits is a thinly veiled pretext to launch a vitriolic attack against a Japan-based Buddhist organization and its U.S. affiliates. The article paints a distorted picture of a "sinister" organization's plot to take over the world. Soka Gakkai's members advocate nothing more sinister than international harmony and peace and bears no resemblance to a "shadowy" and "unaccountable empire." Worse, you imply that Soka Gakkai was somehow responsible for the death of a Japanese city councilwoman in the 1990s. This wild accusation was proven unfounded by Tokyo courts years ago. It is also untrue that Soka Gakkai and its affiliates "tithe." Members are not required to donate a single penny.

EINOSUKE AKIYA
President, Soka Gakkai
Tokyo, Japan

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Those Mom-and-Pop Predators

In "Giant Slayer" *(Sept. 6, p. 72)* the people chose Wal-Mart, not Albert Norman. They should stand up where Norman speaks and shout him out of town. Local businesses pay horrible wages and give few benefits to their workers. Go visit the country north of Syracuse, N.Y., where a nearby Wal-Mart can raise the lifestyles of people who are trapped by low incomes or education and can't find jobs above $7 an hour. Albert Norman's agenda should be questioned. A rich yuppie making personal gain off the backs of the less fortunate is a story as old as union leaders who stole from their workers, using their dues money for personal or political gain. At Wal-Mart workers have a career. So is Albert Norman now going to shut down Home Depot?

GARY KALLBACK
Weaverville, N.C.

It's Only Money

Congratulations on choosing powerful women as the subject of one of your lists "Power Women" *(Sept. 6, p. 68)*. The women you chose were smart, influential and successful. But what were you thinking when you ranked a billionaire above the leader of a nation? J.K. Rowling, for instance, is a great author but is not a powerful woman. People look up to Laura Bush, but she's an image, not a force.

BECKY TURKINGTON
Lyme, N.H.

Crude Suggestion

In "Oil and Politics," *(Point of View, Aug. 16 p. 132)* it is Steve H. Hanke who is playing politics. With world oil consumption at 80 million barrels per day and growing 1 million to 2 million barrels per day each year, it's hard to see how threatening to put (or actually putting) a few hundred thousand barrels into the market would make much difference in the price. If you were really interested in making more oil supplies available, you would support opening up ANWR, which could add in excess of a million barrels per day to U.S. oil supplies.

JOHN GRAHAM
Covington, La.

Dragooned In Astoria

In "This Is War" *(Aug. 16, p. 65)* you report Microsoft is expending considerable energy to draw people away from Linux. Most of us who use computers will continue to use Microsoft, not because we want to, but only because we acquiesce in doing so. How did we ever come to accept continual problems and failures as a functional standard for any product? Imagine what people would do if their cars crashed as frequently as their software.

KEN BENDICKSON
Astoria, Ore.

Getting the Gas Out

"Grab the Energy Chain" *(Sept. 6, p. 189)* describes Sempra Energy as the largest electric supplier in the U.S. We actually have the largest natural gas utility in the U.S., Southern California Gas Company, and are the second-largest natural gas traders, through Sempra Energy Trading.

JENNIFER C. ANDREWS
Public Relations Manager
Sempra Energy,
San Diego, Calif.

Lions' Tale Rewrite

In "So That's What Gross Means" *(Informer, Sept. 6, p. 46)* we said Lions Gate Entertainment spent $37 million on the movie *The Prince and Me* but so far had gotten back just $18 million. In fact, Lions Gate was not the producer. The company says all costs were paid by others and that it only purchased foreign distribution rights to the film and resold them at a profit.

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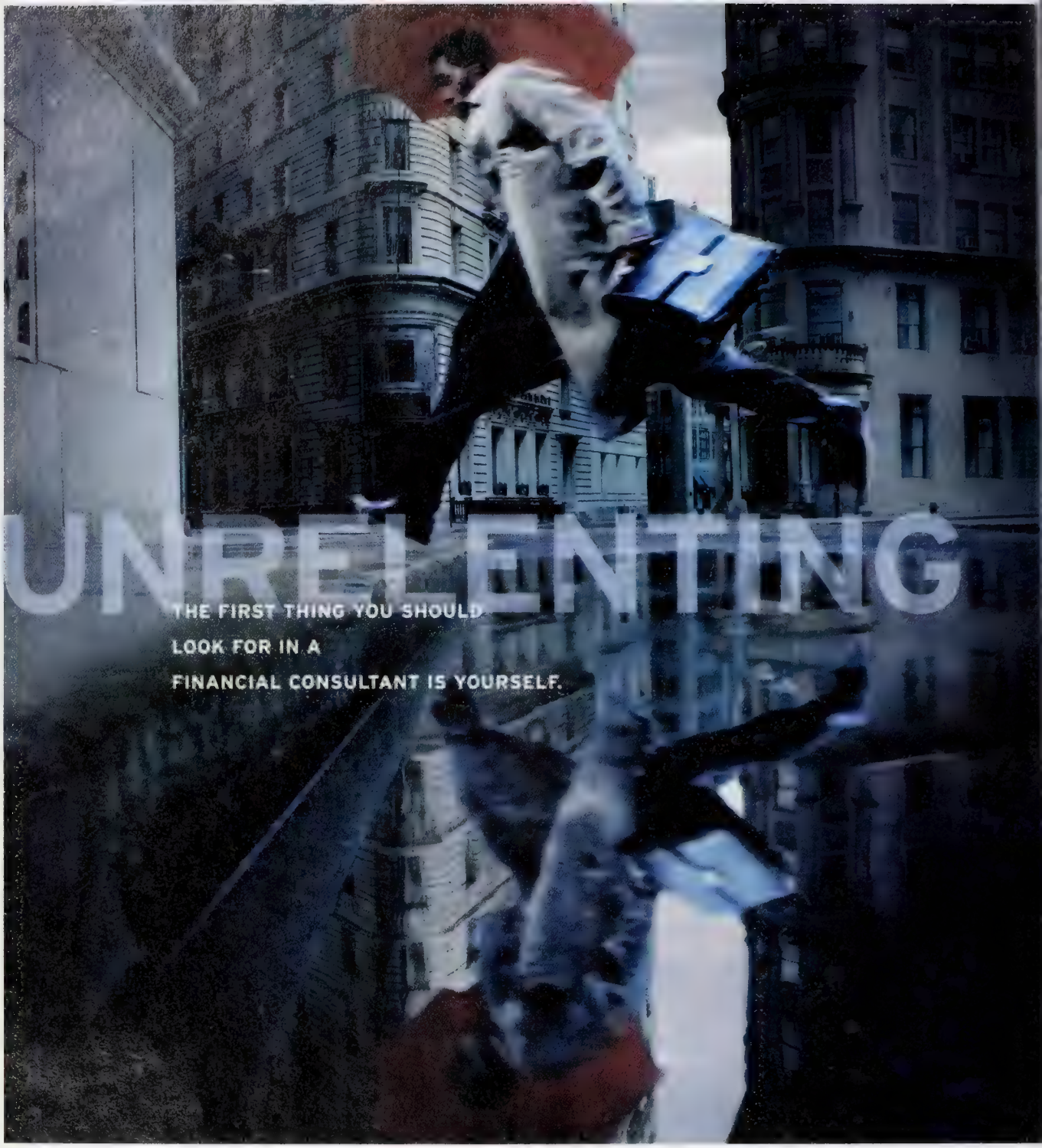

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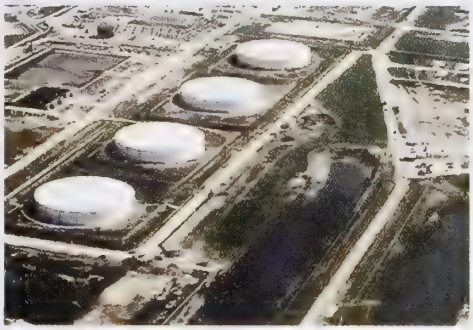
FACT AND COMMENT

By Steve Forbes, EDITOR-IN-CHIEF

"With all thy getting get understanding"

Burst the Bubble

THE HIGH PRICE OF OIL HAS BECOME A hot political issue. Much of the rise in price is due to speculation triggered by the Federal Reserve's inflationary monetary stance in 2003. Commodity prices in general reached a peak earlier this year. But in the case of oil, obviously, prices have also been fueled by uncertainty in the Middle East; the Russian government's shenanigans with its largest oil company, Yukos; and a resurgent global economy.



One of four Strategic Petroleum Reserve facilities. Use 'em to break speculation fever.

If you factor out inflation and speculation, oil should be selling at about $30 a barrel. This would still be above the 1990s average of $20, but it's far below the levels we're seeing now. This is why the Bush Administration should temporarily halt the filling of the Strategic Petroleum Reserve. In fact, the government should unload some of that oil onto the markets, which would promptly prick the speculative bubble. The feds shouldn't be buying petroleum at these sky-high prices.

Insuring Health Care Coverage

THE U.S. CENSUS BUREAU HAS ANNOUNCED THAT THE NUMBER of people who don't have health insurance went up again in 2003, 45 million versus the 43.6 million estimated in 2002. While most of the uninsured are between jobs—with the gap lasting an average of seven months—these still-too-high numbers underscore the need for fundamental changes in the way health insurance is provided.

Most people who have medical insurance get it from their employers or the government. But thanks to a changing economy, millions now work for themselves or for small businesses that can ill afford coverage at today's prices.

What's to be done? There are several steps we could take that would go a long way toward alleviating the problem.

- Allow individuals to fully deduct health insurance premiums, just as companies do.
- Enact Representative John Shadegg's (R–Ariz.) proposal, which would permit consumers to buy health insurance policies offered anywhere in the country. Currently, you, as an individual, can purchase insurance only from companies whose policies are approved for sale in the state in which you reside. Thus, a resident of New Jersey can't buy a policy that's offered in Connecticut. Shadegg's bill would let people compare insurance plans across the country and pick the one that's right for them.

John Shadegg's bill would make medical insurance more available, more affordable.

In this way residents would be able to get around excessive state regulations that enormously increase premiums. A typical family policy in New Jersey, for example, costs about $1,250 a *month*, compared with $450 in Oklahoma.

Most business-provided insurance plans are already free from state restrictions and mandates. A company policy does not have to provide acupuncture services, even if certain states require individual policies to do so. Shadegg's Health Care Choice Act would give buyers a wide range of options from around the country from which to choose. As the congressman points out, "This bill will allow an insurance company to go through one process and sell to people in all 50 states." There'd be incentive for insurers to offer innovative and customized policies. And if health insurance were more affordable, fewer people would go without it. Consumers, not politicians, would decide what policy benefits they wished to have.

- Employers should also move to offer tax-free Health Savings Accounts—money for medical purposes can be deposited by employers and/or employees free of tax, it can grow tax free, and it can be spent for medical care, tax free. HSAs allow employers to offer employees health insurance with high deductibles, making health insurance policies infinitely cheaper. HSAs permit portability. Workers own their policies, not employers, so if you leave a company, you take your policy with you.

De-Corrupt, De-Complexify Money in Politics

THE DEMOCRATS' ALLEGATIONS THAT THOSE ANTI-KERRY VIETnam Vet ads are being nefariously funded by Bush Republicans underscore the idiocy of current campaign finance laws.

The McCain-Feingold bill passed in 2002 was supposed to ban or severely curb corporate and special interest money in politics. All it did was make campaign finance rules rival the fed-

eral income tax code in irrational complexity and incomprehensibility. There is less transparency, less accountability in who's financing what or whom than ever before. It's led to the rise of "527" committees through which donors can bash or burnish specific issues and, thus, candidates to a fare-thee-well.

The idea that money can be purged from politics is preposterous. As long as governments and politicians control trillions of dollars and are involved in so many industries and institutions and in so many aspects of our lives, people and groups are going to try to influence the flow of all that money and the substance of all those laws, rules and regulations. One of the most moronic provisions of McCain-Feingold prohibits groups from mentioning candidates 60 days before a general election, 30 days before a primary. Whatever happened to the First Amendment? The ever more politically correct Supreme Court permitted this provision to stand. Political speech is proscribed, yet pornography remains unfettered. Go figure.

Let's start over and make it simple: Anyone can give as much as he wants to any cause or candidate as long as this information is promptly disclosed on the Internet. Let us—"We the People"—draw our own conclusions.

Cause to Cell-ebrate

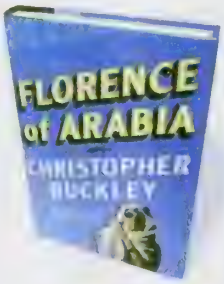
THE PROHIBITION AGAINST USING CELL PHONES DURING AN AIRline flight may soon end. The rationale for banning these devices has been that they might interfere with cockpit communications, but the research supporting this concern has long been suspect.

Whatever the case, new technology is now being tested that will allow airlines to route cell phone calls via satellite, thereby avoiding any potential interference with the cockpit. The sooner this technology is put in place, the better. Many long-distance flights already offer on-plane phone services, but at outrageous prices.

Some fear there won't be a moment's peace once cell phones are allowed. So why not create rows or sections where they can't be used and maybe ban their use on overnight red-eye flights?

Uproariously Un-PC

Florence of Arabia—by Christopher Buckley (Random House, $24.95). The first paragraph of *FYI* Editor Chris Buckley's new, most hilarious novel yet guarantees that he won't soon be named ambassador to Saudi Arabia or any other Arab state: "The emblem of the Royal House of Hamooj [of Wasabia]: a date palm tree, crescent moon and a scimitar, hovering over a head. Viewed close up, the head does not bear a pleased expression, doubtless owing to its having been decapitated by the above scimitar." Nor will Buckley be named our chief envoy to France: "Did not France have her own proud history of screwing things up? Look at Algeria, Vietnam, Syria, Haiti, Quebec—all still reeling from their days of French rule. Clearly, France was ready and eager to show the world that she, too, could wreak disastrous, unforeseen consequences abroad, far more efficiently and almost certainly with more flair than America." Nor will he be on the A-list for the next Secretary of State, as he gleefully flays Foggy Bottom: "They handed her a pamphlet titled 'What American Women Should Understand When They Marry a Wasabi National.' The State Department's reflexive response to any American in extremis overseas is to hand them a pamphlet—along with a list of incompetent local lawyers—and say, 'We told you so.'"



Hardly a major public figure or institution escapes Buckley's barbs: "She saw that he had dispensed with the customary Washington Wall of Ego, consisting of framed photographs of the politicians being offered for sale. The price of the politician was indicated by the size of the photo. If the photo showed the politician golfing with the lobbyist, or smoking a Cuban cigar, the client could expect a 10% surcharge...."

This tale begins when one of the wives of the Wasabi ambassador to the U.S. gets into a messy auto accident while driving drunk. She asks for asylum but is shipped back to Wasabia, where she is executed. Florence, our heroine, ends up leading a mission financed by a mysterious figure (from some subsection of the CIA?) to undermine the medieval Wasabi regime and bring in a more modern, enlightened government that might actually have a future. Buckley's sense of humor and adventure run nonstop. This madcap but insightful book is a perfect break from the daily news about the turbulent Middle East.

RESTAURANTS: GO, CONSIDER, STOP

Edible enlightenment from our eatery expert Tom Jones and colleagues Patrick Cooke and Monie Begley, as well as brothers Bob, Kip and Tim.

David Burke & Donatella—133 East 61st St. (Tel.: 212-813-2121). The rooms in this refurbished townhouse are crowded but comfortable, and the service is highly professional. The fare is sublimely delicious and often jaw-droppingly presented. Favorites: gazpacho with shrimp and the roast chicken. The desserts are spectacular; don't pass up the cheesecake lollipops.

Zeytin—519 Columbus Ave., at 85th St. (Tel.: 212-579-1145). You can eat reasonably well at this Turkish restaurant. The eggplant appetizers and the trout are excellent; however, the fried calamari is far too rubbery, the desserts are disappointing, and the staff is disorganized and surly.

Maurizio Trattoria—35 West 13th St. (Tel.: 212-206-6474). A wonderful jewel in the middle of the block. Try the beef tenderloin carpaccio with shaved Parmigiano and black truffle sauce, the burrata (mozzarella-like cheese) with truffle carpaccio, the spaghetti with baby clams in the shell, white wine, garlic, crushed red pepper and cherry tomatoes, and the veal strips. The panna cotta melts in the mouth; the poached pears with puff pastry are divine. F

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If you must hold yourself up to your children, hold yourself up as an object lesson and not as an example.

—GEORGE BERNARD SHAW

Chicken Littles In 1971 the world's proven oil reserves were 612 billion barrels. Since then the world has produced 767 billion barrels. We should have run out of reserves five years ago, but we didn't. In fact, today's proven reserves are 1,028 billion barrels, or 416 billion barrels more than in 1971. The sky is not falling.

Oil reserves aren't the problem. The real problem is our oil policies.

—STEVE H. HANKE, professor, Johns Hopkins University, senior fellow, Cato Institute, in *Forbes*

Careful, Caring Care Health costs are rising an average of 18% a year for the 172 million Americans covered by health insurance plans. Desperate employers are cutting coverage and shifting costs to employees. An ideal solution, [Newt] Gingrich says, is a Consumer-Driven Health Plan. A CDHP matches a Health Savings Account, which is like a 401(k) for health care, with a high-deductible insurance plan. Mr. Gingrich uses diabetes as an example of how to transform health with proper incentives and information. "Diabetes accounts for every seventh dollar of health spending in this country," said the former speaker. "But no doctor or nurse can take care of a diabetic. The diabetic has to take care of him- or herself. An information-rich incentive-based plan pushes patients to learn how to take care of themselves. If we can postpone the onset of blindness or heart disease by helping a diabetic care for himself, we have improved his quality of life and saved money at the same time."

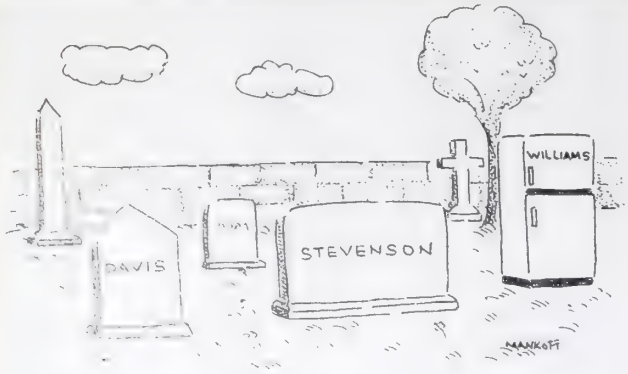
"In the third-party payer (HMO or PPO) model, health is a rental car—it's nobody's problem," Mr. Gingrich said. "Nobody has ever washed a rental car."

—JAY WHITEHEAD, *New York Sun*

Soros' Shopping Spree Left-wing "hate Bush" groups just recently proudly announced they have raised some $75 million to run attack ads against President Bush in battleground states. A good chunk of these funds are from Democratic gazillionaires like George Soros. The hypocrisy of the left on campaign financing is truly stunning. For years, those on the left were cheerleaders for legislation like McCain-Feingold that would take "big money" out of politics. They were sick of multimillionaire donors "buying elections."

Well, excuse me, but what in the world do they think George Soros is doing? Mr. Soros, who has labeled George Bush "the most dangerous man in the world," has already given $16 million to "hate Bush" groups and he has said he will consider giving much more if that money can be used to defeat Bush-Cheney in November. But the left-wing campaign finance zealots have not issued a peep of protest. The *American Prospect* magazine for years railed against big donor politics but recently applauded the Soros money because it will "level the playing field with Bush." But Mr. Bush raises his money $2,000 at a time, not $2 million at a time. If the left doesn't want to play by the rules it set up with the new campaign law, that's fine. Let's repeal this misbegotten law by all means.

—STEPHEN MOORE, president, Club for Growth, *Washington Times*



Hidden in Plain Sight The mind is never satisfied with the objects immediately before it, but is always breaking away from the present moment, and losing itself in schemes of future felicity.... The natural flights of the human mind are not from pleasure to pleasure, but from hope to hope.

—SAMUEL JOHNSON

Practically Speaking "But my lord, we have [the Americans] exactly where we want them. Instead of making threats to the Americans, you say to them, 'Look, my hamburger-eating friends, we know the sheika works for the CIA. I'm going to give her to you—with the head intact. Do you know why? Precisely to show the Wasabis that I am my own imam, my own person, that I don't take orders from anybody. And now here is what you Americans are going to do for me in exchange. First, I want to start hearing you say nice things about me in the United Nations. Second, I want you to stop saying all these terrible things about how France was very naughty to help me become amir. And third, I want you to send your Delta Force commandos into Amo-Amas and remove this Florence woman of yours. Dead or alive, it's no matter for me. And finally, if you don't help me with these things, you Americans are going to have a very cold winter, yes?"

"Hmm," Maliq said. "Do you think they'll go along with it?"

"My dear imam, you must understand—the Americans are idealistic to the point where they must lower their thermostat two degrees. Then they become very practical."

—*Florence of Arabia,* by CHRISTOPHER BUCKLEY

Dumb and Dumber In the first place, God made idiots. That was for practice. Then he made school boards.

—MARK TWAIN F

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By Ernesto Zedillo, Former President of Mexico
Director, Yale Center for the Study of Globalization

Uncertain Future for Free Trade

AT THE ELEVENTH HOUR OF THE JULY 31 DEADLINE, EXHAUSTED negotiators at the WTO headquarters in Geneva clinched a deal to reanimate the Doha Round of trade liberalization. The agreement was immediately hailed by its chief architects: Robert Zoellick, the U.S. trade representative, called it a milestone; Pascal Lamy, the EU trade commissioner, declared the Round to be back on track; Kamal Nath, India's commerce and industry minister, affirmed that the agreement provided significant gains for his country; and Celso Amorim, Brazil's foreign minister, went so far as to proclaim it a combination of trade liberalization and social justice!

It's excellent that the Round was not buried on the shores of Lake Geneva. And it's great that at last the negotiating agenda is rid of some highly contentious noncore trade issues, such as multilateral agreements on investment, competition and government procurement. But a quick look at the points agreed to reveals that the agreement is, at best, a timorous step toward achieving the liberalization goals set at Doha in 2001.

Deal or Gimmick?

Take agriculture, the area in which the Round is supposed to achieve the biggest reforms. True, negotiators agreed to eliminate export subsidies. But they failed to set a date certain. They also reiterated their commitment to substantial reductions in trade-distorting domestic subsidies, but they omitted any time frame, as well as any definition of "substantial." Furthermore, they agreed—mainly because of U.S. demands—to redefine the so-called Blue Box of subsidies (acceptable under WTO rules) to allow payments to farmers that otherwise could have been prohibited.

Regarding tariffs and other impediments to imports, negotiators committed to substantial reductions but, again, failed to set any timetable or specify by how much. Equally worrisome is that negotiators agreed that countries may designate products as sensitive, giving them a mechanism to circumvent the general rules on dismantling farm protectionism. It's not hard to envision the abuses this provision will engender. Markets for certain products with enormous export potential for developing countries could be kept closed. For example, Japan has already announced its intention to use this loophole for rice, a product that soaks up hundreds of billions of yen in subsidies and carries extravagant tariffs. Expect the EU and the U.S. to do the same for their products that are protected and have strong lobbies.

Those hoping for real agricultural reform have gained no peace of mind from statements made by certain key government officials. The French minister of agriculture praised the agreement's lack of timetables and predicted that subsidies won't end until 2015-17. Mr. Lamy himself praised the deal for locking the EU's Common Agricultural Policy (infamous even after last year's reforms) into the WTO's covenants. And don't for a minute think that so many loose ends in agriculture were left in exchange for making great strides in other sectors. In fact, there was no progress made in the Round's other two important areas, industrial goods and services.

Foggy Panorama

Whether the July agreement eventually becomes meaningful will depend on future negotiations, which won't gain momentum until well into 2005. In turn, the outcome of those negotiations will depend on how seriously the main players pursue free markets as instruments for peace and prosperity.

Don't expect any significant change in the protectionist attitudes of most heads of government in Europe. A ray of hope can be found in the appointment of two men, Portugal's José Manuel Barroso as president of the European Commission and Britain's Peter Mandelson as trade commissioner, both of whom have good reputations as effective reformers and believers in free markets.

The outlook for trade reform is also very uncertain in the U.S., the country that must exercise the greatest leadership if the Round is to succeed. A main cause of uncertainty stems from the upcoming November presidential elections. The Administration, usually right in its rhetoric, has frequently disappointed in its practice. But the challengers' rhetoric on trade is, frankly, scary. The drums of protectionism are beating loudly in that camp, highlighted by frequent outcries against offshoring. They have found it politically expedient to blame offshoring for the U.S.' weak job creation in recent years and are pledging to restrict it.

There are two serious problems with this proposal: First, it's based on false premises; second, it would inflict much more harm than good on the U.S. economy. A recent study by the Federal Reserve Bank of Boston shows that domestic developments associated with higher productivity, not offshoring, explain the anemic growth in employment during the present recovery. While outsourcing does cause some layoffs, it also leads to insourcing to the U.S. In fact, a study by Global Insight (USA) has found that global sourcing contributes significantly to GDP in the U.S., adding $33.6 billion in 2003. The study also provides evidence that while IT offshoring displaces some workers, it ends up increasing total employment in the U.S. as its effects on productivity, demand for other domestically produced goods, lower inflation and lower interest rates flow through the economy. Politicians of all persuasions should know better! F

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Ernesto Zedillo, director, Yale Center for the Study of Globalization, former president of Mexico; **Lee Kuan Yew**, senior minister of Singapore; and **Paul Johnson**, eminent British historian and author; in addition to Forbes Chairman **Caspar W. Weinberger**, rotate in writing this column. To see past Current Events columns, visit our Web site at **www.forbes.com/currentevents**.

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By Rich Karlgaard, PUBLISHER

Two for Our Time

MORE THAN MOST COUNTRIES, AMERICA DEPENDS ON ITS entrepreneurs for economic health. Now especially. The Bureau of Labor Statistics demonstrates this in stark terms. New job growth from existing U.S. corporations is weak. According to the Bureau's payroll survey, fewer than 500,000 jobs have been added since the end of the recession in November 2001. Noting this fact, sour donkey Stephen Roach, chief economist for Morgan Stanley, says the U.S. is "mired in the depths of the worst jobless recovery of the post-World War era."

But hold the Prozac. The same Bureau of Labor Statistics says that 3.25 million new jobs have been created during the same period. That's according to its other survey, the household survey.

In other words, millions of people are not reporting to work. They're starting businesses. Technology makes it easy to do so.

The odds of successful entrepreneurship have never been too hot. We need to change that, because those traditional payroll jobs aren't coming back in big numbers. Automation and outsourcing (e.g., 300 million Chinese will be linked to the Internet by next year) are modern facts of life. So are those well-intended but job-killing laws that govern such things as workers' comp, domestic partner benefits and "living wages." These are disincentives for Big Employers to create jobs. To make up for this shortfall, America needs to have its entrepreneurs and home businesses succeed.

Happily, two of the best books you'll find on technology, opportunity and entrepreneurship hit the bookstores this month. Caveat: I'm friendly with both authors. So I may be biased in what I'm about to say, but I don't think so.

The first book, **Running Money** (HarperBusiness, $24.95), is by Andy Kessler, a former Morgan Stanley semiconductor analyst turned investment banker. In 1996 Kessler and JP Morgan dropout Fred Kittler cooked up a hedge fund, called Velocity Capital, to invest in Silicon Valley companies, private and public. As Kessler relates in *Running Money*, the going at Velcap in the beginning was slow. He and Kittler had hoped to raise $100 million. Despite making pitches in San Francisco, New York, Hong Kong and Europe, they had to settle for $11 million and a 1% management fee. Kessler writes, "The puny 1% fee didn't quite cover our office and travel expenses, let alone let us draw a salary.... We stepped into a hole and now we had to dig deeper to get out."

Following a double-digit pop in 1997, Velcap had relinquished all its gains by the fall of 1998. Kessler says he faced ruin and felt "completely and utterly clueless." Afraid to take calls from angry clients, he began hiding out in the Palo Alto public library. There he pored over books on the 19th century's Industrial Revolution, trying to figure out who really had made money on the advances in steam, gasoline and electric motors. Kessler figured that what was happening in Silicon Valley "was just the Industrial Revolution movie playing over and over again ... and if [Velcap] could just find companies in different stages of development and place them in the Industrial Revolution time line, we could figure out whether to invest."

Kessler's homework paid off. By 1999 Velcap had more than $1 billion under management and had, one week, turned down $1 billion more. That year *Barron's* ranked Velcap the third-best American hedge fund. Of course, by April 2000 tech stocks started their remorseless 70% slide, and Velcap didn't escape the bloodbath. Kessler and Kittler shut the firm down in 2001, far ahead.

Running Money reads like a Harlan Coben page-turner and shares his wise-guy humor. You can read Kessler's book in one transcontinental flight. But keep it close by. You'll want to return to it often to absorb the lessons of how industrial revolutions play out—whether 19th century or 21st—and who really makes the money.

Guy Kawasaki's latest, **The Art of the Start** (Portfolio, $26.95), is written as a how-to book. It's a practical guide (or guerrilla manual, as Kawasaki might say) for starting a business and keeping it going long enough to have a shot at real success.

My recommendation: Don't try to read *The Art of the Start* in one sitting. Kawasaki's readable and candid writing style will tempt you to do just that, but this book is better taken one chapter at a time. Better yet, read and discuss it with your startup team. Kawasaki guides you through chapters on starting, positioning, pitching, bootstrapping, recruiting, raising capital, partnering and branding. *The Art of the Start* makes lavish use of tables and how-to lists, which in most books is lazy-author PowerPoint fodder. Not in Kawasaki's. Here you'll discover him at his pungent best—punching past clichés and conventional thinking.

I especially liked the chapter "The Art of Bootstrapping." Here's a sample: "If you pick a big enough market, it's easy to fool yourself into thinking success won't be hard to achieve." Smart bootstrappers stay focused.

Running Money and *The Art of The Start* together offer readers thrilling macro and micro views of entrepreneurship. For a U.S. finding its way in a postmodern recovery, these books couldn't have arrived at a better time. F

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Google This

They're feeling lucky: Sergey Brin and Larry Page.

While Google co-founders Larry Page and Sergey Brin were orchestrating their initial public offering, financial advisers the firm engaged told its soon-to-be-rich employees to sell. Google had outfits like J.P. Morgan and Morgan Stanley make presentations. The experts advised diversification, which means unload some Google shares when those represent almost all of one's assets. Google lets staffers sell 5% of holdings after 15 days, 10% more after 90 days and all after six months. No comment from Google or advisers. —*Patricia Huang*

If the Trust Yields 5%, He's Still Ahead

A federal judge has held Dallas real estate tycoon John F. Eulich in civil contempt of court for failing to give the Internal Revenue Service documents about a family trust in the Bahamas said to contain $75 million to $100 million. The court rejected Eulich's claim that he already had cooperated in good faith. Eulich, 74, made The Forbes 400 list in 1986, then immediately fell off amid a plethora of bad loans. The judge ordered daily fines of $5,000—doubled after 30 days—"to get Eulich's attention and obtain his compliance." Message received: Eulich and lawyer say a resolution is being negotiated. —*Janet Novack and William P. Barrett*

What's His Credit Rating?

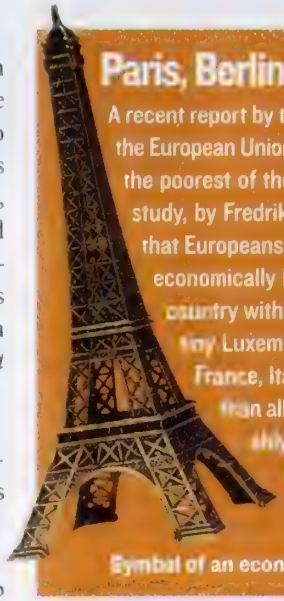
H. Russell Fraser, who helped create the bond insurance business and revitalized rating agency Fitch Investors Service, has with his wife filed for Chapter 11 bankruptcy in Wyoming. Court papers list $3.1 million in assets—including 21 guns—and $4.1 million in liabilities. Fraser, 63, says that he filed to stop bank foreclosures on property securing $3 million in loans. He blames serious medical conditions, now cured, for his money problems. Fraser left financial services in 2001 to pursue agriculture and dude ranch interests around his Double Diamond X Ranch in Cody. A 1992 FORBES story cited his "fondness for cowboy boots and other Western garb." —*W.P.B.*

Rename It *Basement* Magazine

Meanwhile, the Chapter 11 bankruptcy of *Penthouse* magazine, whose circulation has dropped from 5 million to 400,000, is getting as down and dirty as the photos it features. Private equity investor Marc Bell, who bragged to the media that he had taken control after foreclosing on a reported $41 million debt, announced plans to tone down the mag. Oops! The handover was delayed after the current owners, whom Bell had financed, sued, alleging bankruptcy fraud and other mischief. Bell denies their claim that he threatened *Penthouse*'s aging founder, ex-Forbes 400 member Robert C. Guccione. Very ex-. The contents of Guccione's 70-acre Hyde Park, N.Y. estate—which he lost after a loan default—were set to be auctioned on Sept. 4. —*Seth Lubove*

Paris, Berlin, Rome ... and Little Rock

A recent report by the Swedish think tank Timbro says that if the European Union was part of the U.S., it would rank among the poorest of the states. Entitled "EU versus U.S.A.," the study, by Fredrik Bergström and Robert Gidehag, figures that Europeans have a level of prosperity equal to that of economically backward states like Arkansas. The only country with a per capita GDP above the U.S. average: tiny Luxembourg. Opinion of the researchers: "That France, Italy and Germany have less per capita GDP than all but five of the states of the U.S.A. is probably something that Messrs. Chirac, Schröder and Berlusconi don't wish to know." —*Tatiana Serafin*


Symbol of an economically trailing region.

The Revolving Door Spins Furiously at the SEC

Like many federal agencies full of lawyers, the relatively tiny Securities & Exchange Commission isn't immune from high-level employees leaving for more lucrative gigs on behalf of those they formerly regulated. Below, some recent moves. —*W.P.B.*

NAME	LAST POST AT THE SEC	NEW JOB	NEW DUTIES INCLUDE
Mark K. Braswell	manager, enforcement division	partner, Venable law firm	**white-collar defense**
Wayne M. Carlin	Northeast regional director	partner, Wachtell Lipton Rosen & Katz	**white-collar defense**
Cynthia Fornelli	deputy director, investment mgmt. division	senior vice president, Bank of America	**compliance**
Mary E. Keefe	Midwest regional director	lawyer, Citadel Investment Group	**global compliance**
Barry W. Rashkover	associate Northeast regional director	partner, Sidley Austin Brown & Wood	**white-collar defense**
Russell G. Ryan	assistant enforcement director	partner, King & Spalding	**"special matters" practice**
William L. Tolbert Jr.	associate director	partner, Jenner & Block	**securities practice**

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By Vernon L. Smith, a 2002 Nobel Prize winner in economics and professor of economics and law at George Mason University.

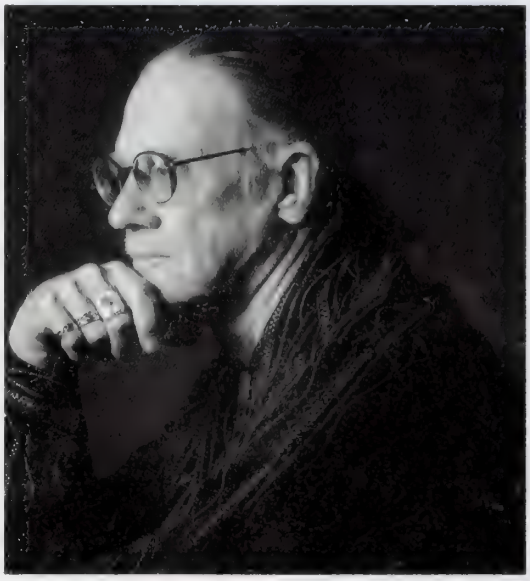
Buy Me Out

When the public good is at stake, maybe it's better to be ruled by dollars than by votes.

SUPPOSE NEW YORK CITY PROPOSES A ZONING LAW CHANGE that would permit the construction of taller office buildings in one part of town. The neighbors, or others who see the change as hurting them, will turn out to vote "no" in a referendum on the issue. Those who stand to gain will turn out to vote "yes."

Whichever side commands a majority will enjoy a capital gain, while the other side will suffer a capital loss. Some existing properties will increase in value while others will decrease. Much money may have been spent on lobbying for or against the measure. Democracy at work. The majority imposes reduced wealth on the minority and votes more wealth for itself.

As noble as democracy is, it is excluded from most of the choices we make. We don't use majority rule to decide whether New York will build a Metropolitan Opera House, whether Yo-Yo Ma will play at Carnegie Hall or whether Volkswagen will discontinue the newest version of the Bug. If enough people are willing to pay to have an opera house, see Yo-Yo Ma or buy the Bug, those things happen. But in zoning, because the public good is at stake, people think the majority should hold sway.



"Those who think they will be hurt by the zoning change send in bids stating how much they are willing to pay for the status quo."

Maybe there's a fairer way to divide the spoils—fairer and more practical, too. Together with George Mason University graduate students Ryan Oprea and Abel Winn, I've been running experiments to test an alternative approach using what we call a Referendum Center. We use real people and we pay real money, but we test hypothetical situations. Here's how we would approach the zoning dilemma.

Suppose those who think they will be hurt by the zoning change simply send to the Referendum Center a bonded bid stating how much they are willing to pay for the status quo. Those who think it's a good idea to loosen the rules and who see themselves as benefiting would send in bonded bids stating how much they are willing to pay for rule change.

So there are two piles of money bids. The biggest one, say $100 million, wins. The losing pile of bids was, let us say, $90 million. Each person who bid for the losing option receives a check for the amount that he or she bid. The money put up by the winning bidders is used to compensate the losers.

What if a losing bidder complains that his compensation is not high enough? We'd say it's his fault; he should have bid higher. But he must not bid more than the zoning change is truly worth to him because if he wins, he'll have to pay too much.

If he expects to win, his motivation is to bid less than the true worth to him, because everyone wants a bargain. But if he overplays this hand he will lose the bidding war. And then his compensation will be less than what he will lose in worth. In short, it's not easy to game the result. You have to put real money on the table.

Our solution is not ideal. But the bidding procedure is simple, fair and less coercive than majority rule, where the winners provide zero compensation for the damage they inflict on the downtrodden minority.

We're still examining a number of questions. Since more is bid by the winners than is needed to compensate the losers, what do you do with the surplus ($10 million in the example) after deducting the cost of conducting the referendum? Keep it as if it were a tax, or distribute it as a bonus to the losers?

We're also examining possible pitfalls. Suppose that lots of the people who bid for choice B actually prefer choice A. They think B will lose, and they hope to share in the payout to be funded by the choice A winners. Would this sort of speculation cause instability, even though there are incentives not to do this and to simply make a straightforward bid? In our experiments we find that the only subjects who do this are those who are assigned (randomly) very low values so that they have little to gain and also little to lose. These "dishonest" bids are therefore inconsequential because they are small and involve only those with little at stake. It's a behavioral issue that we learn about with experiments. F

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MAY 10, 2004

Tough Guys Settle Quietly

Our cover story four months ago described how hotelier J.W. (Bill) Marriott became the industry leader by not being a softie. Now Marriott is a step closer to putting down a revolt by a handful of hotel owners who'd taken his hotel-management company to court over high fees. Marriott's latest conquest: Laurence Geller, president of Chicago hotel owner Strategic Hotel Capital.

Geller had accused Marriott International of padding operating costs it passes along to Strategic, taking hidden kickbacks and developing hotels that directly compete with Strategic's California flagship, the Ritz Carlton in Laguna Niguel. Terms weren't disclosed, though Marriott says the settlement is "not material" to its results. Insists one attorney who'd followed the litigation closely, "Geller wouldn't have settled unless he did well."

—Stephane Fitch

NOVEMBER 26, 2001

Bally Total Confusion

Three years ago we warned about weakness at Bally Total Fitness. The Chicago-based gym chain had put itself on an unsustainable earnings treadmill that required it to sign up an unending flow of new members to keep revenue rising. Debt had grown and sales weren't keeping pace with ballooning expenditures on upgrades and expansion. But after our story appeared, Bally kept growing; it seemed we had made a bad call, as the stock rose to $23 in April 2002 from $19 when our story ran.

Our skepticism was not misplaced. In early August Bally postponed the release of its second-quarter earnings, citing "an examination of certain accounting issues," and said it expects to restate earnings for an undisclosed number of prior quarters by $5 million. The Securities & Exchange Commission is investigating Bally's accounting. On Aug. 17 Standard & Poor's downgraded Bally's credit rating from B+ to B, several days after Moody's Investors Service put Bally under review. Bally has replaced its auditor, Ernst & Young, with KPMG. The stock has tumbled to $4. *—Elizabeth MacDonald*

MAY 26, 2003

Coal Comfort

A year ago we wrote that the go-it-alone, combative qualities that had served Massey Energy boss Donald Blankenship so well in the past had left his coal mining company vulnerable. A bold decision

FLASHBACKS

85 YEARS AGO IN FORBES | JULY 12, 1919

Big Business 'Tis business makes the world go round. Politicians, diplomats and warriors used to rank as the foremost figures in the national life; but the world has learned that business, financial and commercial leaders now shape a nation's course. Woodrow Wilson while a professor did not realize this; when he first entered the White House his conceptions of business and businessmen were almost puerile. Did he not declare frankly in a recent address in Europe: "The plans for the modern world are made in the counting house. The men who do the business of the world now shape the destinies of the world."

20 YEARS AGO IN FORBES | AUGUST 27, 1984

Lost Olympic Gold "I didn't make five cents on Olympics visitors," moans Beverly Hills travel agent Barbara Rothschild. Talk to hotel and restaurant managers, amusement parks or rent-a-car agencies and the cry is the same. What looked like a gold mine last August turned out to be fool's gold. Only 400,000 or so Olympics visitors showed up. About 55% of them stayed with friends and family. Unlike the usual summer visitors, they came for one reason—to see the games. Not to go to Disneyland or the San Diego Zoo. Not to shop on Rodeo Drive or eat at Ma Maison or even at a Denny's coffee shop.

15 YEARS AGO IN FORBES | SEPTEMBER 18, 1989

Gambling on Trump No announcement yet, but Donald Trump is seriously considering taking his Atlantic City casino empire public. "I'm looking at numbers that are so humongous that it makes sense to do it," he says. Investment bankers say he could raise no less than $500 million in return for just 20% of the hotel and gambling operation. Investors eager to ride The Donald's coattails should remember that he isn't in the habit of giving things away. If we figure right, he would price the whole operation at $2.5 billion. The offering would value his casinos together at ten times last year's cash flow, versus an industry average of six. Prime properties, maybe, but hardly cheap.

In August Trump Hotels & Casino Resorts announced plans to file for bankruptcy and for Trump to step down as chief.

Vehicle shown with available equipment. [1]Toyota Vehicle Stability Control (VSC) is an electronic system designed to help the driver maintain vehicle control under adverse conditions. It is not a substitute for safe driving practices. Factors including speed, road conditions and driver steering input can all affect whether VSC will be effective in preventing a loss of control. Please see your *Owner's Manual* for further details.
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Mining money: Don Blankenship.

to replace workers demanding higher wages with inexperienced ones had backfired in higher costs. Regulators were not pleased with Blankenship's dismissive attitude toward environmental rules. Neither problem has disappeared, but Blankenship's bet on Appalachian steam coal is paying off. The price of high-quality Appalachian coal (at the mine mouth) has more than doubled in a year to $60 per ton. Massey recently posted its first profit in 14 quarters, and the stock has nearly tripled in a year to a recent $28. *—Bernard Condon*

SEPTEMBER 1, 2003

Race to the Boonies

The rural hospital market has turned red-hot since we wrote about the sector a year ago. In August LifePoint Hospitals announced plans to acquire rival Province Healthcare for $1.7 billion in cash, stock and assumption of debt. LifePoint will become a 50-hospital chain and a more formidable competitor to Health Management Associates, the rural health care leader that has acquired 5 hospitals since our story ran, bringing its total to 52. There are plenty of targets left among the nation's 2,200 rural hospitals. Built after WWII, most are now in dire need of new medical talent and technology. *—Dirk Smillie*

APRIL 19, 2004

Drug Bust

Our tale of the men and money behind dangerous dietary supplements cited Michael Ellis, a partner at Metabolife in San Diego. Ellis peddled the bestselling diet pill containing ephedra, an herbal stimulant that a government-commissioned study has linked to heart attack, stroke and death. Now both Ellis and Metabolife have been indicted for deceiving the Food & Drug Administration and obstructing the Apr. 12 ban on ephedra. The feds say Ellis lied to the FDA about complaints Metabolife had received about side effects. Ellis has pleaded not guilty. The government is also pursuing a tax investigation of Metabolife.

—Nathan Vardi

AUGUST 11, 2003

Trading Up

Last August we wrote about economist Richard Sandor's ambitious plan to curb carbon dioxide emissions through a pollution-trading market called the Chicago Climate Exchange. At the time Sandor was preparing to open the market with 17 companies that promised to reduce emissions to 4% below what their average levels were between 1998 and 2001. Any additional reductions could be bought and sold on the exchange.

Since December 2003 a million tons of carbon dioxide have been traded at an average price of just under $1 per ton, and 60 companies are now members. Sandor plans to license his system to the International Petroleum Exchange for a similar market in the European Union, where trading is slated to begin this January. *—Dorothy Pomerantz*

Pollution market maker: Richard Sandor.

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Teflon Bank

One embarrassing disclosure after another hits the Bank of America, but none of the dirt sticks. If the earnings are good, shareholders can be very forgiving.

BY BERNARD CONDON

BANK OF AMERICA CHIEF EXECUTIVE KENNETH Lewis has spent more than $200 million over one and a half years for media ads touting the bank's "higher standards." But lately the Charlotte, N.C. bank has been caught up in a series of embarrassing acts that don't quite fit that spin: illegal trades, the stonewalling of regulators and lousy due diligence.

Now comes another black eye: Enrico Bondi, the man overseeing the restructuring of bankrupt milk giant Parmalat, says he will likely add BofA to a roster of financial firms (Citigroup, Credit Suisse, UBS, Deutsche Bank et al.) he is suing over Parmalat's collapse. BofA's alleged sin was to cover up Parmalat's crumbling finances while peddling the Italian

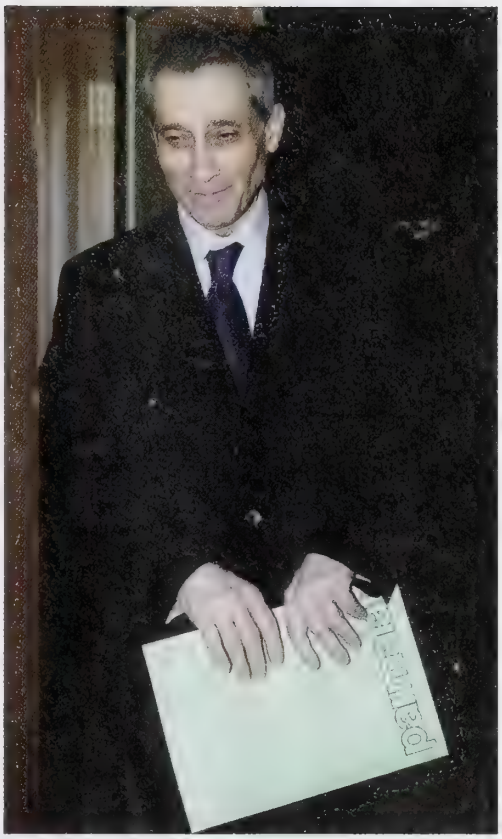
company's bonds to unsuspecting investors.

The Bondi threat follows recent testimony by a onetime BofA worker in Milan that he accepted $27 million in kickbacks for helping to fob off some of those Parmalat bonds when the company was teetering on insolvency.

"The reputation that management built over the last few years is shot," says Richard Bove, an analyst at Hoefer & Arnett. The "higher standards" claim is "total bull."

BofA says it was a victim itself of Parmalat's fraud—it holds $124 million (face value) of Parmalat bonds—and denies it misled anyone. It says it will vigorously defend itself against any lawsuit.

The bad news for the bank started in October 2002. That's when BofA and 17 other banks were hit with a suit alleging they sold WorldCom bonds, now close to worthless, without the diligence that was due. BofA, rejecting an offer to settle for $447 million, is fighting the suit.



Will BofA's Ken Lewis *(opposite)* soon be fighting charges of dirty doings, again? Parmalat boss Enrico Bondi *(above)* has him in his crosshairs.

In September last year New York Attorney General Eliot Spitzer sued BofA for helping hedge fund Canary Capital illegally trade mutual fund shares. BofA's Lewis fired several staffers and paid $375 million to settle the charges, a quick response that won cheers from Wall Street.

Then, in February, a group of institutional investors, including HSBC, sued the bank, alleging that it allowed a hedge fund client to print out phony returns bearing the bank's name before it lost $571 million and was shut down. The bank denies any wrongdoing.

In March BofA paid $10 million to the Securities & Exchange Commission for not handing over e-mails promptly during an insider trading investigation and, most damning, not disclosing that some of the requested documents had been destroyed. In July BofA paid $69 million to settle a suit brought by Enron shareholders accusing it of off-balance-sheet maneuvers designed to hide debt. BofA says it paid to avoid the "distraction" of litigation and that it "broke no law."

And indeed the bank probably didn't break any laws in some of the cases bedeviling it, which it calls "isolated incidents." But it still has an image problem.

Consider BofA's role as a "new shareholder," as a Parmalat press release put it, in a struggling Parmalat subsidiary in Brazil, which sent shares of the parent up 17% in one day. In 1999 the bank set up two holding companies in the Cayman Islands to accept a $300 million loan from it and other lenders. The Cayman outfits then turned that money over to Parmalat's Brazilian unit in exchange for an 18% equity stake.

But there was a catch. If the Brazilian company didn't spin off to the public in four years, or if it did and the market valued that 18% stake at less than the $300 million put in, then the Cayman vehicles could exercise a "put option" bought from parent Parmalat in Italy. This would require the parent to buy the stake at the original cost, plus $125 million in interest.

In essence, outsiders, led by BofA, were simply lending Parmalat money to put into its Brazilian operations—though that debt never appeared on Parmalat's balance sheets. BofA says that the "put option" was disclosed in the Parmalat release announcing the deal and that it's not responsible for client releases, anyway.

Whatever the truth, it seems many investors were confused. A Morgan Stanley analyst issued a report stating that the investment was evidence that the Brazil unit was a "hidden jewel" in the milk company. The analyst urged investors to buy Parmalat stock.

BofA's Lewis is putting on a brave face. He has set up an internal investigations unit to smoke out wrongdoing with mutual fund clients, hired the deputy head of mutual fund oversight at the SEC to help keep regulators at bay and just added $300 million to litigation reserves. And he's running those ads.

The fact the bank's stock recently hit an alltime high of $44.51 is proof, says Chief Marketing Officer Catherine Bessant, that its now-ubiquitous tagline isn't just high-priced talk. "The market believes we have higher standards," she says.

Or maybe it just doesn't care, so long as the dividends keep coming. This year they will be $1.80, quadruple the payout of a decade ago. Hoefer & Arnett's Bove estimates earnings of $14 billion, or $3.65 a share, for 2004.

For all his concerns about reputation, Bove still rates BofA a "strong buy." Says he: "There is no divine justice on Wall Street." F

BY THE NUMBERS

8	Number of times "higher standards" appears in BofA annual report
8	Number of times "class action" appears
44%	Increase in marketing spending[1]
27%	Increase in stock price[2]

[1]Two years through 12/31/03. [2]Two years through 8/27/04.

The Matrix Unraveled

How two wrecked telecom companies have put lessors and small businesses on the hook for $300 million.

BY DIRK SMILLIE

ONE OF THE SCARIEST EQUIPMENT-LEASING TALES IN YEARS IS unfolding in a Newark, N.J. bankruptcy court, involving two fast-talking brothers who hauled in millions hawking a mysterious blue box they called the "Matrix."

Their company, Norvergence, was founded by Peter Salzano and Thomas N. Salzano in 2001. They used the Matrix to turn Norvergence (2003 revenues: $143 million) into a powerhouse reselling telecom services. Powerhouse, that is, until the privately held Newark company was forced by creditors into Chapter 11 bankruptcy in June.

In its three years of existence Norvergence hired 1,800 sales and other employees, who called on travel agencies, print shops and real estate brokers—businesses with little tech savvy. The pitch was that the Matrix would deliver unlimited broadband, landline and cell phone service with no per-minute charges. The Matrix, the company touted, was a "merged access transport intelligent exchange" whose "algorithms create the most efficient use of T-1 loops ever."

It was customers who were thrown for a loop. "The Matrix is a fraud," says Barry Bellin, a Teaneck, N.J. telecom consultant who has installed the boxes. The box is no more than a firewall and router made by Adtran, a Huntsville, Ala. company. The Matrix can't by itself provide an Internet connection or save telecom costs. Bellin says the boxes were used mainly to route long-distance calls through Qwest, which had sold minutes to Norvergence at wholesale rates.

Bruce Konecky, owner of JBQ Printing in Millburn, N.J., signed a five-year Matrix $300-a-month lease. "All the box did is flash its green lights on and off," he says. Bankruptcy trustee Charles Forman says 7,200 Norvergence customers are locked in to such leases, totaling $230 million. Norvergence already got its money, having sold the leases to leasing and banking companies. Creditors Qwest and Sprint say they're owed $30 million. Good luck. Tom Salzano's last startup, telecom reseller Minimum Rate Pricing, also went bankrupt, leaving creditors like WorldCom and Access Capital $67 million poorer.

Where did the money go? Trustee Forman is investigating the trust set up by Tom Salzano that owns a 76% stake in the company. Forman is also looking into whether Salzano diverted some of Norvergence's cash to bank accounts outside the U.S. Creditors in his earlier bankruptcy discovered he transferred $2.7 million of company funds to an account at Bank Julius Baer in Switzerland.

Neither brother responded to inquiries made to their lawyer. Forman canceled a creditors' meeting when the Salzanos failed to show up. A source close to the bankrupt company says the brothers are busy now—planning another telecom startup. F

IF YOU'VE GOT IT, FLAUNT IT

So long, Gap. Indulgence is back. There are waiting lists at stores like Saks Fifth Avenue for items like a new $5,000-plus Louis Vuitton handbag with a woven LV logo. Dolce & Gabbana fans are lining up for a $1,330 purse that they can personalize with their zodiac sign. Dig out those intertwined-C Chanel earrings from the back of your jewelry box. The logo is hot again. Politically incorrect fur is once more the rage in stores and fashion spreads for luxe floggers like Prada, Versace and J. Mendel. (If you're splashed with red paint, just buy another coat.)

Remember Bijan? The by-appointment-only menswear designer boasts that sales were up 65% in the first half of 2004, thanks to some of his 22,000 clients—including 42 FORBES billionaires—snapping up $100,000 luggage sets, $15,000 suits and such at his Beverly Hills boutique.

Flaunting it: Kathy Hilton *(above, center)* will host a TV show. *(Below)* $5,600 Louis Vuitton bag.

No wonder Donald Trump thinks businessfolk will rush to buy his Trump Signature Blazer this fall ($350). It comes with his family crest on pocket inserts.

If you don't know how to play the game, check out the tube. As early as this fall, Kathy Hilton (mother of videostar Paris) will give 14 hapless have-nots lessons in living well in a new NBC show. Then there's the Dapper Don's daughter, Victoria Gotti. She's the star of a new A&E reality show that reveals the flashy, bejeweled life of her "make him an offer he can't refuse" family. It was the cable network's most-watched series premiere ever.

—*Allison Fass*

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TALE OF THE TAPE

DETROIT'S NEWEST FAMILY SEDANS

After years of feasting on profits from trucks and SUVs, both Ford Motor and Chrysler Group say they're "back in the car business." Chrysler's muscle-bound 300 is flashy and powerful, with an optional Hemi engine. Ford's Five Hundred is classic-looking and practical, with an emphasis on its spacious interior.

The Chrysler 300 is already a smash hit, with 49,000 sold since April. Ford's more conservative approach means a tough marketing challenge when the Five Hundred debuts this fall. But Ford executives think the Five Hundred strikes the right balance in a family sedan. "We're not aiming these cars at hot-rodders," says Ford Chief Operating Officer James Padilla.

Here's how the two sedans compare.

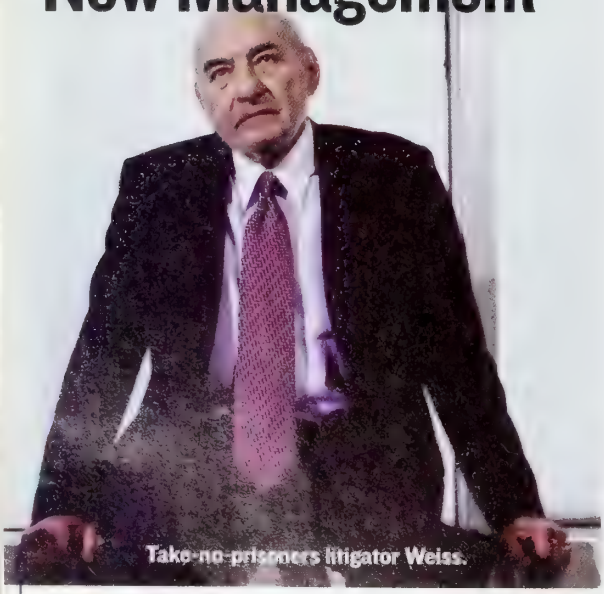
—*Joann Muller*

	CHRYSLER 300 (touring)	FORD FIVE HUNDRED SEL
POWERTRAIN	3.5-liter V6 4-speed auto (RWD) or 5-speed auto (AWD)	3.0-liter V6 6-speed auto (FWD) or continuously variable (AWD)
HORSEPOWER	250	203
0-60 MPH[1]	8.0 seconds	7.85 seconds
FUEL ECONOMY	19 city/27 hwy	21 city/29 hwy
STARTING PRICE	$27,720	$24,795
KEY SELLING POINTS	Bold looks Optional 5.7-liter Hemi Mercedes technology	Value and performance Huge trunk and back seat Volvo safety

[1]Independent testing by AMCI.

New Management

Class-action king Mel Weiss takes on a new role in a struggling drug company | BY EMILY LAMBERT



Take-no-prisoners litigator Weiss.

SCORCHED-EARTH LAWYER MELVYN Weiss made his fortune suing companies on behalf of shareholders who felt they were victims of financial shenanigans. When he's a shareholder himself, Weiss has shown that he can play just as tough.

Weiss controls 4% of the shares (worth $338,000) in a Pittsford, N.Y. company called Exegenics, which was started in 1991 to develop disease-fighting drugs. Last year Weiss filed a lawsuit alleging the directors had mismanaged and looted the company through such activities as making generous loans and payments and buying fine wines. The directors contest the claims, one director telling the court Weiss had threatened to sue if they didn't resign. Only a suggestion to avoid litigation, retorted Weiss.

When the directors didn't resign, he began a proxy fight to oust them, hooking up with Bruce Meyers, who controls 8% of the shares. In 2000 the National Association of Securities Dealers brought regulatory action against Meyers for failing to enforce procedures regarding insider trading and against his firm for trading ahead of customer limit orders. Without admitting guilt, he and his then-firm, Janssen-Meyers Associates, paid $32,000 to settle the allegations. Meyers declined comment and remains a broker.

Weiss and Meyers didn't mention this regulatory slap in their proxy solicitation—the company pointed it out. Asked about Meyers' background, Weiss said, "I don't know anything about that; you'll have to talk to him." They won and named a new slate of directors. All eight Exegenics employees have left or been fired but one, David Riggs, who is searching for a new business for the company.

Riggs says he has little contact with Weiss and Meyers, but the lawsuit remains. Weiss' family partnership applied to represent similarly situated shareholders. Weiss says the suit is to recover money for the company, and neither he nor his firm stands to make money from the case. The company is also being sued by a former employee. Exegenics says that suit is without merit.

Hey, maybe it's a value play. At a recent 56 cents a share on Nasdaq, though in danger of being delisted, the company has a market value of $9 million and no long-term debt ($230,000 in accounts payable), against a collection of assets that includes $9.2 million in cash and a $49 million tax-loss carryforward. F

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Farm Teams

Desperate for new musicians, big music labels turn to their tiny rivals | BY PETER KAFKA

TWO YEARS AGO EXECS AT SONY MUSIC PASSED ON A chance to sign an unknown group called Los Lonely Boys, a trio of brothers from San Angelo, Tex. Last fall Sony had a change of heart, much to its benefit: The group's debut album has sold 1.8 million copies.

What changed Sony's mind was the band's performance for Or Music, a minuscule label that signed the musicians after they had been turned down by every big music company. Since Or's eight-person staff doesn't have the ability to distribute its own music, it pays Sony to do so; after watching the band sell 70,000 copies of its eponymous album in a few months, Sony picked up the band from Or.

Big music companies have always used little labels to augment their rosters. More than a decade ago Geffen Records picked up a little-known rock band called Nirvana from small Seattle label Sub Pop Records; in the 1960s famed soul studio Stax Records (Otis Redding, Booker T. and the MGs) worked as a feeder system for Atlantic Records. But after watching sales drop 30% in three years, the four big labels are becoming more reliant on seat-of-the-pants independents. "Before, the majors felt that they were competing with the indies. Now it is becoming their sole method of artist development," says music business attorney Fred Davis.

More friends now: Los Lonely Boys.

Sony (now Sony BMG) and Universal Music are spending freely on new rock bands who make their mark for little labels; Edgar Bronfman Jr.'s Warner Music is looking to buy the labels themselves.

The Sonys of the world have a difficult time making money unless they move a million CDs or more, but labels like Or Music can make a profit selling 25,000 copies. That lets them seek out bands whose commercial appeal isn't immediately visible.

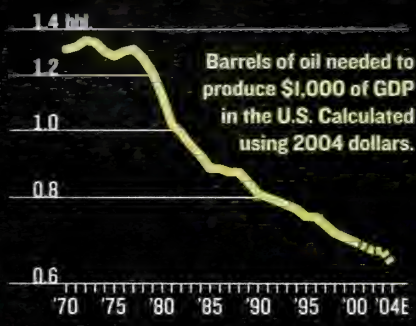
The most popular strategy for the big music companies is new distribution agreements that allow for "upstreaming": The big guys use their distribution arms to sell the little guy's discs, but retain an option to buy the band itself if sales hit a certain level. For the Los Lonely Boys deal, Sony paid Or a fee for the rights to the band and will split profits from any sales.

The deals make sense for the big companies. But if the little labels are so good at finding and selling music on their own, why do they need the big guys? For leverage with broadcasters and retailers. Los Lonely Boys manager Kevin Wommack estimates Sony has shelled out some $500,000 since picking up his band; more important, he says, has been the label's ability to get the album into Wal-Mart and Best Buy. F

STOP WHINING

With oil having topped $45 a barrel, it's time again to panic about our dependence on foreign oil. Or is it?

In 1970 it took the economy 1.31 barrels of oil to produce $1,000 of GDP (measured in 2004 dollars). This year oil intensity will fall to 0.64 barrels. We're driving as much as we ever were, but we're also producing more goods (Viagra, *Spider-Man*, tax software) that don't consume much oil. Improved energy efficiency and a shift away from oil in power plants also help. Joel Darmstadter, an economist with Washington, D.C. think tank Resources for the Future who has no position on SUVs per se, says, "The economic effect of oil price changes today is significantly less—in relative terms—than it was 30 years ago." —*Michael K. Ozanian*



Source: Calculations by Joel Darmstadter and Ian Parry, Resources for the Future, based on data from Department of Energy, Energy Information Administration and President's Council of Economic Advisers.

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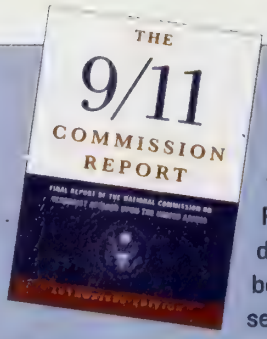
SCARY NONFICTION



What's the summer's hottest read? It's not the latest Sue Grafton mystery. It's the *9/11 Commission Report*. Since its release July 22, the commission's chilling account, reading at times like a fast-paced Tom Clancy novel, has sold 630,000 copies and topped the *New York Times* nonfiction paperback bestseller list. The publisher, W.W. Norton, has nearly doubled the initial print run to 1.1 million.

Norton plans to share part of its profits from the $10 book with a yet-to-be-chosen Sept. 11 charity. A competing paperback, published by St. Martin's Paperbacks and containing commentary and articles from the *New York Times*, has sold 24,000 copies.

"We knew it was going to be a very important book, but the minute it landed, it blew up," says Robert Wietrak, vice president of merchandising at Barnes & Noble, where the Norton book has remained the chain's number-one-selling title since its release.

Unlike 1998's million-selling *Starr Report*, detailing Bill and Monica's Oval Office antics, the Sept. 11 commission findings promise to have more enduring historic value. "This is a book that's affected every American," says Wietrak. "People want to have it on their shelves."

There's still some room on the shelf for scandal. Barnes & Noble announced on Aug. 23 that it had sold out *Unfit for Command*, the attack by Swift Boat veterans on John Kerry.

—*Alexandra Kirkman*

Baby Lessons

Disney is learning a thing or two from its tiniest company: Baby Einstein. BY DOROTHY POMERANTZ

KIDDIE VIDEO MAKER BABY EINstein Co. believes it can develop the brains of babies as young as a few weeks old by having images of toys or animals move across the screen while classical music plays in the background. The concept was intriguing enough to Walt Disney Co. that it bought the $25 million (sales) Colorado outfit three years ago for a reported $25 million. Sales have since jumped to $165 million.

That's a rounding error for $27 billion Disney. But now the 81-year-old company is learning a thing or two itself from its new purchase: how to better manage brands like Winnie the Pooh or the new pirate characters that crept out of Disney's successful 2003 film *Pirates of the Caribbean*.

Disney has never had one person manage individual characters. There's no brand manager in charge of Mickey Mouse, for example. Business divisions like the film studio, the stuffed-animal division and publishing have always made product decisions independently without consulting one another.

Disney acquisitions executive Russell Hampton fretted that Baby Einstein might languish under this system because the divisions would be too busy focusing on much bigger properties like *Finding Nemo*.

Disney's newest management coaches.

So Hampton convinced Disney President Robert Iger to let him run the company outside of Disney's traditional management structure, even going so far as to establish Baby Einstein's headquarters in a dingy office park in Glendale, Calif., 3 miles from Disney's glittering studio. Instead of waiting for the divisions to develop the brand, Hampton has done it himself—convincing the consumer products unit to come out with hand puppets and getting Buena Vista's help in securing Baby Einstein videos prime positions at Wal-Mart.

Baby Einstein has now expanded into toys, activity centers and music. Hampton is also rolling out Little Einstein (for preschoolers), which will revolve around a cartoon to run on the Disney Channel in fall 2005.

The do-it-yourself approach has worked so well that Iger wants to do the same for other Disney characters. He is personally overseeing the new pirates franchise, which will include television shows, movies, toys and books. He's also put Hampton in charge of Disney's latest acquisition: the Muppets.

A volunteer, please, to manage Donald Duck. F

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Baghdad M.B.A.

DHL's point man in Baghdad, Heyrick Bond-Gunning, delivered packages and turned a profit—all while dealing with labor unrest, overzealous bureaucrats and enemy fire.

BY MICHAEL FREEDMAN

Deliveryman: Bond-Gunning built DHL's Iraq business.

A VETERAN OF THE British army and dot-com mania, Londoner Heyrick Bond-Gunning got a call last year offering him the chance to start the Iraqi branch of DHL, the $27 billion (sales) German delivery business. After an interview in Bahrain, he accepted the job, said good-bye to his fiancée and hopped on the first flight to Baghdad. A series of e-mails sent home turned into a book, *Baghdad Business School*, to be released by Eye Books in the U.K. in September. Now a consultant for companies that want to do business in the Middle East, 33-year-old Bond-Gunning sat down with FORBES to explain what he learned.

FORBES: *What, exactly, was your job?*

Bond-Gunning: We had to go set up DHL's operations around the country. I had set up businesses before, so I had an idea of how to do it. It was profitable after two months.

What was your first success?

Getting our first client, the U.S. Agency for International Development. They would have meetings every morning, and we would gate-crash to make a pitch. We'd explain what we did, and they'd sort of look slightly blank, and we'd say, "We're like FedEx," and they'd say, "Oh, yeah," which was slightly annoying. But as we were there first, it didn't really matter. Coalition forces had this enormous area of land in Kuwait that was just full of military kit and equipment, and it would probably take them two months to get any of it through the system and delivered. We were able to do it in three days.

What were some of the challenges?

About three months down the line a DHL health-and-safety-at-work guy wanted to come over and make sure we were fulfilling all the requirements. It was just amusing that someone was going to come out to a war zone to make sure our chairs had the right posture. Then we had these contract pilots from Bulgaria and Moldova. They were very brave guys, but if they could cause a hiccup, they would. They'd try to get paid more money. In the morning we'd go to get them, and sometimes they'd be sitting there in their underpants saying they were having a meeting and weren't going to fly. Also, we had a satellite phone that sometimes worked when you were outside but didn't work anywhere else. It's very difficult to operate that way.

What was the most difficult time?

When our plane was shot down. That was a bad day at the office. F

BIG-BOX BACKLASH

Discounters like Wal-Mart, Target and Kmart sold 49% of the $21 billion worth of toys bought in the U.S. last year.

This at a time when toy sales are running 3% below a year ago and retailers like Zany Brainy, Noodle Kidoodle and FAO Schwarz have gone under. Even Toys "R" Us is thinking of selling its toy business.

So those toymakers who can't get in the door at the big-box stores—or were booted out because their stuff didn't sell fast enough—have to find new ways of getting into playrooms. Other toymakers who do sell to discounters are also hedging their bets.

Auburn, Wash. importer ToySmith is now selling to car washes, which stock bouncy balls, and Smith & Hawken, which carries Garden at Home kits. Taiyo Edge in Daytona, Fla. sells its radio-controlled cars at outdoor store Bass Pro Shops and at Nascar.com. Kiddie gadget maker Wild Planet will sell a translucent Aquapet exclusively on Ebay this November.

This spring Richard Zawitz received Food & Drug Administration approval to market his twisty plastic Tangle toy to treat hand problems, combat stress and help nicotine addicts quit smoking. He's hoping therapists will sell them. Board game Cranium has found its way into grocer Whole Foods, where this Christmas greeters at 22 of the chain's supermarkets will wear wacky hats and hand out Cranium cards.

Magnetic Poetry Chief Executive David Kapell, whose inaugural order with Wal-Mart wasn't renewed last year, says he prefers smaller stores anyway: "They pay on time, they're nice people, and if we misship something they'll carefully pack it back in the box for us and ship it back and wait for the next order."

—*Chana R Schoenberge*

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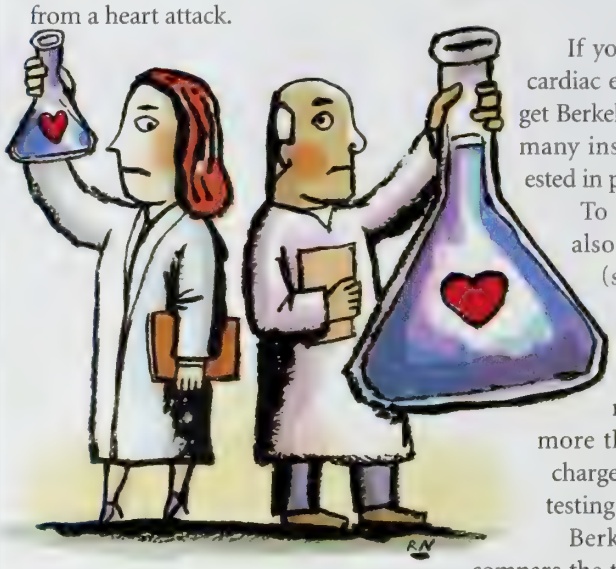
Blood Feud

Do you want to spend $770 getting your cholesterol checked?

BY VANESSA GISQUET

WORRIED ABOUT YOUR CHOLESTEROL? WITH THE NATIONAL INSTITUTES of Health recently lowering the recommended level for "bad" cholesterol in very high risk patients from 100 milligrams per deciliter to 70, the labs that do the 150 million cholesterol screenings each year are eager for new customers. The stakes are biggest for the small labs that specialize in advanced cholesterol testing. One of these is $23 million (sales) Berkeley HeartLab, a privately held California firm that has developed a 27-metric screen including arcane measurements of apoprotein B and lipoprotein particle sizes. All this is supposed to tell you more precisely the probability that you will keel over next week from a heart attack.



If you haven't already had a cardiac event, you will when you get Berkeley's bill ($770). Not very many insurance plans are interested in picking up the whole tab.

To the rescue: Atherotech, also private, a $16 million (sales) Alabama lab that offers a 19-metric test it claims is just as good as Berkeley's. This one runs only $90, not much more than testing giant Quest charges for garden-variety lipid testing.

Berkeley says it's absurd to compare the two tests. The lab argued at a 2002 cardiology conference that Atherotech's test is too simplistic and doesn't identify enough high-risk patients. Nonsense, says Dr. Richard Lanman, Atherotech's medical director. Berkeley's 2002 study was flawed and never published in a peer-reviewed medical journal, he says.

To further confuse matters, privately held LipoScience, a $29 million (sales) North Carolina lab, charges $90 for a six-metric test that counts the precise number of lipoprotein particles in your blood, measured by nanomoles per liter. The company, which says this is the only test of its kind in the U.S., claims it's the most accurate way of measuring bad cholesterol.

What do everyday doctors say? Many cardiologists favor the concept of blood screens that go beyond bare-bones good cholesterol/bad cholesterol readings. But where does one stop?

"Whatever additional information Berkeley gives you [over Atherotech] is only academic," says Dr. Bassem Masri, a lipid specialist from Cornell's medical school. "I think all these tests are very good, so I pick the cheapest." From Harvard Medical School, Dr. Peter Libby, who's also chief of cardiology at Brigham & Women's Hospital, weighs in: "For bread-and-butter preventive cardiology, I think [advanced testing] is overkill. I want to teach my patients the ABCs, not the Greek alphabet."

Would Berkeley cut its prices to get more business? "List or billed price is not the driver for market acceptance," insists Frank Ruderman, Berkeley's chief executive. Let money affect medical decisions? Perish the thought. F

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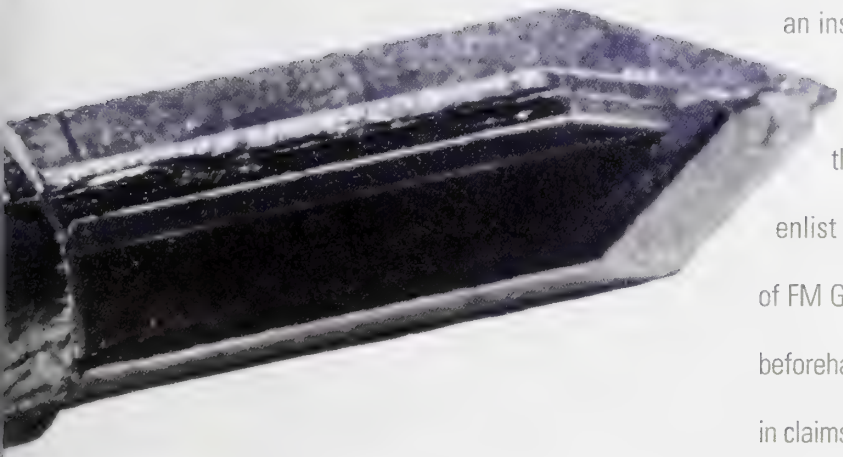
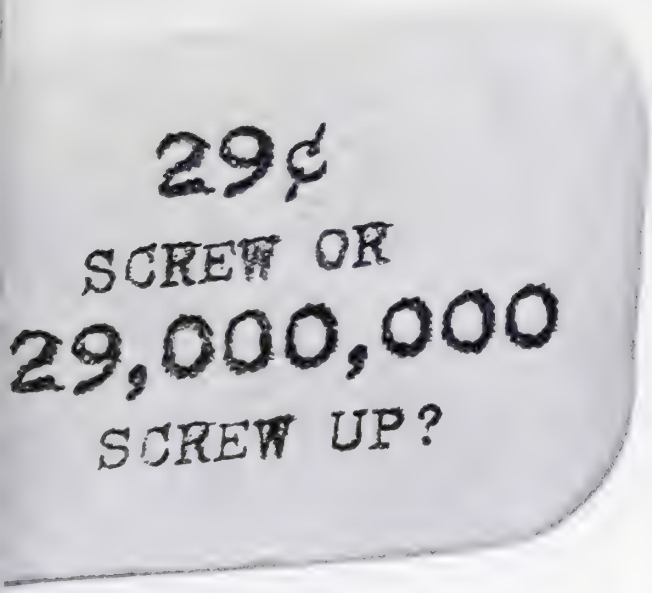
perfect
less than
RANGE ROVER
LAND ROVER





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The Next Threat

Four years ago al Qaeda operatives were taking flying lessons. Today they are honing a new skill: hacking. How much damage could a cyberterrorist do to our electric grid or the Internet? We don't know yet.

BY ROBERT LENZNER AND NATHAN VARDI

ILLUSTRATION BY BRIAN STAUFFER FOR FORBES

JASON LARSEN IS A MASTER HACKER. HE SPORTS THE de rigeur black shirt, black slacks, glasses and ponytail. A 41-year-old programmer at the secretive Idaho National Engineering & Environmental Laboratory in Idaho Falls, he discusses about the ways in which a terrorist intruder might get online and trip circuit breakers on the electrical grid or open valves at chemical storage tanks.

"I could easily turn off the power in a couple dozen cities by the end of the day," says Larsen. He has hacked into the automated control systems at several big utilities; usually it takes him all of a week.

Experts like Larsen make a living by stoking cyberfear in the rest of us. They say that terrorists could shut down chunks of the Internet, the phone system or the electric grid by hacking into computers. We're not spending

enough on computer security, they say, and the consequences could be devastating.

These experts have an ax to grind. But they might be right. As the Internet spread like a virus in the 1990s, hundreds of utilities, chemical factories, wastewater plants and the like went online to enable remote monitoring and more instant communications. Yet their antiquated control systems lack protection against digital intrusion, providing an easy target.

The most destructive terrorist act in history began with Islamic radicals going to flight school and ended when they turned airliners into flying bombs. As the third anniversary of Sept. 11 passes, the next threat could be a Net threat: Solid evidence shows that al Qaeda agents and other terrorists are trying to attain the online skills needed to wage cyberwar. Terrorists could use the Internet to disrupt the communications systems of the military's Pacific Command or turn off the lights in Los Angeles or Chicago; they could open the massive floodgates of Arizona's Roosevelt Dam or disable huge parts of the World Wide Web.

"I could easily turn off the power in a couple dozen cities."

Jason Larsen, master hacker

Yet in the U.S. no urgent crusade has emerged to fix the flaws. The National Strategy to Secure Cyberspace, signed last year by President Bush, proposes a sweeping overhaul of U.S. networks. In it the White House's former counterterrorism chief, Richard Clarke, urged a wholesale reboot of government computer systems and new security rules for electric utilities and Internet access providers. But few of his proposals have been adopted, Clarke says. "All the regulated industries—the electric utilities, the gas pipelines and oil refineries, the water and transportation systems—are still vulnerable to cyberattack."

Washington lacks any consensus on what to do about th Net threat—or whether it even constitutes a threat. "The ide that hackers are going to bring the nation to its knees is too far fetched a scenario to be taken seriously," asserts James Lewis, former State Department and Commerce Department official He has dismissed cyberterror in reports for the nonpartisa Center for Strategic and International Studies.

Patching the holes could easily cost billions of dollars. Som 80% of the nation's infrastructure is owned by corporations, bu government and business can't even agree on who should cove the cost. "We haven't developed a comprehensive strategy for ad dressing this weakness in our critical infrastructure," says Con gressman Adam Putnam (R–Fla.), who sits on a subcommitte on tech issues. "America must not be so focused on preventin physical attacks that we leave our cyber-backdoor wide open an unattended. The tragedy of 9/11 has taught us that we must imag ine the unimaginable."

The unimaginable is looking ever more plausible. The FBI say the cyberterrorism threat to the U.S. is "rapidly expanding." "Terrorist groups have shown a clear interest in developing basic hacking tools, and the FBI predicts that terrorist groups will either develop or hire hackers," Keith Lourdeau, an FBI deputy assistan director, told the U.S. Senate earlier this year. Material found in Afghanistan by U.S. forces in 2001 showed that al Qaeda was trying to develop cyberterrorists, says John Arquilla, a professor at the Naval Postgraduate School.

Computer systems that control the water supply and wastewater systems "have been the targets of probing by al Qaeda terrorists," says Rep. Putnam, who cites U.S. law enforcement and intelligence agencies. Unwanted intrusions have occurred in some 50 incidents over the past ten years to automated systems that control important physical equipment through the Net, says Joseph Weiss, a security consultant in San Jose, Calif. "Not enough people are taking this seriously," he laments.

Al Qaeda previously has used the Net to circulate propaganda and communicate with operatives. The terror alert in August, detailing al Qaeda plans to attack financial institutions in New York and New Jersey, came after the arrest in Pakistan of Muhammad Naeem Noor Khan, a computer engineer. Elsewhere, Abu Anas al-Liby, one of al Qaeda's ranking computer experts, trained agents in computer surveillance techniques, according to testimony in 2001 in the Nairobi embassy bombing trial.

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For now most e-jihadists can barely even mess up an obscure Web site, but they are learning. Some two dozen online terrorist discussion groups and Arabic-language hacking forums are now tracked online, up from only four a year ago, says IDefense, a Reston, Va. firm. IDefense spotted jihadist hackers unsuccessfully trying to take down the Bank of Israel's Web site *(see box, p. 76)*.

Hacking tools and talent are readily available online. "If al Qaeda can't do it, they can go buy it," says John Watters, IDefense's chief. Last year at a hacking conference in Birmingham, U.K., a techie presented a detailed paper on cracking into water systems. The National Security Agency says foreign governments already have developed such computer attack capabilities. U.S. officials believe Iran, North Korea, Russia and China have trained hackers in Internet warfare.

"You want to start a Bhopal incident? Anyone with some software experience can."

Steven Schaeffer, software engineer

U.S. military computer networks have proved easy to penetrate. In 1998 hackers started using stealthlike attacks that, over several years, cracked open Pentagon computers and downloaded thousands of sensitive technical files. A federal investigation, dubbed Moonlight Maze, traced the intrusions back to dial-up Internet connections near Moscow. The hackers have never been caught.

Online, America's aching Achilles' heel is the wide-open automated control systems that run the nation's networks for electricity, water, gas, oil and more. The control systems were designed years ago when each utility was an island, without any thought given to bulletproofing against online intrusion once everything was linked together.

"There is potential vulnerability throughout industry where control systems are connected to the Internet," says Clarke, the former White House head of counterterrorism. Yet the feds often aren't even told when an online event has affected some control system; no mechanism has been developed to report such incidents.

Clarke is, admittedly, a grandstander who wrote a tell-all book and made headlines questioning the Bush Administration's urgency in responding to the terrorism threat. But even the staid GAO has weighed in similarly, underscoring the danger to "our nation's critical infrastructure." "Control systems can be vulnerable to a variety of types of cyberattacks that could have devastating consequences—such as endangering public health and safety," warns a report issued in March by the GAO (which now stands for Government Accountability, rather than General Accounting, Office).

Utilities are particularly defenseless. A total 270 utilities that generate 80% of the nation's electricity use control systems that are ripe for hacking, according to research by Ted G. Lewis for the Navy Postgraduate School. "We have visited 15 utility companies and been able to penetrate all of them," says Brian Ahern, chief executive of Verano, a provider of cyberdefense systems for utilities.

Microsoft's software is both ubiquitous and vulnerable. In January 2003 the Microsoft SQL Server worm, known as Slammer, infected a private computer network at David-Besse nuclear power plant in Oak Harbor, Ohio, disabling a safety monitoring system for nearly five hours, says the Nuclear Regulatory Commission. The dormant plant's process computer failed, and it took six hours to get it up and running again. At another utility, in an undisclosed city, Slammer downed the computer network controlling vital equipment. Other times the attacks are more personal: In 2000 a discontented consultant, rejected for a job at a water treatment plant in Australia, remotely hacked into a sewage treatment system and released 264,000 gallons of raw sewage into rivers and parks.

Many of these systems are known as Scada, for Supervisory Control & Data Acquisition, and are made up of computers, networks and sensors that control industrial activity over large geographic areas. Another kind of system, known as DCS, or Distributed Control Systems, is often used in isolated areas such as a chemical plant.

Most control systems lack any encryption, and they have

Need More?

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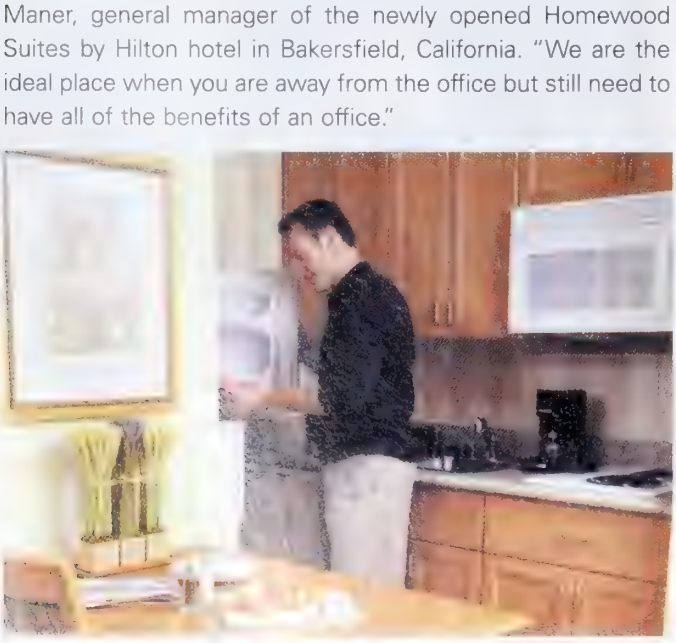
BUSINESS TRAVELERS WHO FACE STAYS OF A FEW NIGHTS OR LONGER ON THE ROAD NEED MORE THAN WHAT TRADITIONAL HOTELS CAN OFFER. HOMEWOOD SUITES BY HILTON SATISFIES THOSE NEEDS BY OFFERING MORE SERVICES, MORE AMENITIES AND A HOME-LIKE ATMOSPHERE.®

America's lodging options rarely offer the right range of products and services for the modern road warrior. With no other choices available, business travelers have settled for a traditional hotel.

Not anymore. For business travelers who have *always* wanted more, now there's a choice: Homewood Suites by Hilton, which combines the best aspects of residential living with all the amenities and services needed when facing a few nights or more on the road.

With more than 135 locations in the U.S. and Canada and more than 70 hotels in development, Homewood Suites has the perfect blend of just-like-home comfort with amenities to suit business travelers' needs. Business travelers now have a place to call their perfect second home.

Homewood Suites by Hilton hotels are "designed for guests who stay for a few nights or longer and who want to feel more at home while they are traveling," says Jamie Maner, general manager of the newly opened Homewood Suites by Hilton hotel in Bakersfield, California. "We are the ideal place when you are away from the office but still need to have all of the benefits of an office."



What makes Homewood Suites a better alternative for th traveler who needs to spend more than a day or two on th road? Unlike a standard hotel room, guest accommodations at Homewood Suites by Hilton hotel offer spacious studio, on and/or two-bedroom suites. Each suite has a fully equippe kitchen with a microwave oven, full-size refrigerator, dishwashe twin-burner stove, coffeemaker and place settings with a dini area that doubles as workspace. There are two telephones wi voice mail, a remote-controlled television with premium cab channels and on-demand movies and/or a videocassette playe Each suite also has an in-room iron and ironing board. And no all Homewood Suites by Hilton locations in the U.S. offer com plimentary high-speed Internet access.

Sounds more like home than the road, doesn't it? That's th point. The longer most travelers are away from home, the mo they crave those comforts that a traditional hotel does not offe But Homewood Suites by Hilton is specifically designed to mak you feel at home while on the road.

The atmosphere of the guest accommodations is augmen ed by the signature features of every Homewood Suites hote the Lodge, a central area off the main lobby where guests ca eat, relax and socialize. The Lodge offers a dining room, a com fortable living room and a small, private meeting room. Mo Homewood Suites by Hilton hotels also offer the most desire guest amenities: a 24-hour business center, swimming poo sports court, exercise room and on-site guest laundry facilit Most hotels also feature a 24-hour Suite Shop® on-si

convenience store with the snacks and sundries guests crave.

But Homewood Suites hotels go even further to make business travelers feel at home. A complimentary Suite Start™ hot breakfast is offered each morning in the Lodge, and a complimentary Welcome Home® reception with a light meal and beverages is served every Monday through Thursday evenings (subject to state and local laws). Homewood Suites guests can participate in the Hilton HHonors® hotel guest reward program, which offers both HHonors points and airline miles for most stays. A copy of *USA Today*® is delivered to the suite each weekday morning, and hotels even offer a complimentary grocery-shopping service*. Most hotels also feature an average of 750 square feet of meeting space.

Since Homewood Suites by Hilton fuses the best amenities of home with smart lodging services, its hotels are especially attractive to those guests that spend a few nights or longer. To accommodate this type of guest, Homewood Suites offers an additional perk at most hotels – discounts for stays of five consecutive nights or longer. All discounted rates are based on availability and length of stay and are bookable on the convenient, easy-to-use homewoodsuites.com Web site.

Homewood Suites by Hilton also excels in another area: making its guests feel productive on the road. All U.S. hotels offer high-speed Internet access, as well as traditional dial-up service, so guests can use their laptop computers in much the same way they use their office equipment. Since each suite offers a dining table that doubles as a spacious work area, guests have ample room to work in comfort.

Travelers who need even more amenities can visit the on-site, 24-hour business center offered at most locations. The business centers are equipped with a laser printer, photocopier and access to a fax machine. Most hotels also offer meeting facilities accommodating up to 30 people. And every Homewood Suites hotel in the U.S. now offers wireless high-speed access in the Lodge, meeting rooms and business center. ■

To make reservations at a Homewood Suites by Hilton hotel, visit homewoodsuites.com or dial 1-800-CALL-HOME®.

*Guest pays for groceries. Other restrictions apply.

My Homewood.

Wake up to a complimentary hot breakfast seven days a week. As well as a two-room suite* with a fully equipped kitchen and complimentary high-speed Internet access. At Homewood Suites by Hilton,® you can even look forward to a weekday evening Manager's Reception† with a complimentary light meal and beverages. So you can feel at home, even when you're not. All for less than you might think. Visit **homewoodsuites.com**, or dial **1-800-CALL-HOME**.

HOMEWOOD SUITES Hilton

MAKE YOURSELF AT HOME.

proved simple to manipulate once a hacker gets inside. In a recent test Steven Schaeffer, a software engineer at the Idaho National Engineering & Environmental Laboratory with no Scada experience, easily figured out how to outsmart a General Electric Scada system running a mock utility. It took Schaeffer only five months to analyze the setup and write code that would let him, from his laptop, tell the Scada system to open and close enough breakers to bring down the mock utility—without letting the legitimate operator see what was going on.

"Someone will find a packet of death to bring down the Internet."

Ken Silva, former NSA official

"What if this was a chemical plant? You want to start a Bhopal incident?" Schaeffer asks, referring to the accidental chemical leak at a Union Carbide plant in India that killed 3,800 people in 1984. "It's fairly trivial to do this. Anyone with some software experience can."

The Internet has brought these plants online and made them more vulnerable, and the foundation of the Net itself is susceptible to attack, too. "Someday someone will find a packet of death to bring down the Internet," warns Ken J. Silva, former National Security Agency official now at VeriSign, the main operator of the Internet-address database that directs billions of digital packets around the world every day.

Some weaknesses, already well-known to hackers, foreign governments and, most likely, jihadists, have been exposed in two areas: the Domain Name System that VeriSign oversees and the Border Gateway Protocol, which governs how Internet service providers and large networks exchange routing information. The millions of computers and Web sites linked to the Net are identified by distinct serial numbers; the DNS converts these tags into identifiable Web addresses. The DNS rides on top-level servers around the world, which in turn are guided by the true pillars of the Internet: 13 root servers, most of them run by volunteers. Often these big servers are poorly secured. In 2002 they were flooded with traffic from tens of thousands of infected computers in an unsolved "distributed denial of service" attack. It lasted for about an hour and took down 9 root servers; had all 13 gone down, the entire Internet might have crashed for hours or days.

Richard Clarke believes a debilitating attack on the Internet could be mounted by manipulating routing information via the Border Gateway Protocol, corrupting it to "send everything down a black hole." In April router vendors like Cisco and Internet service providers like AT&T and AOL had to quickly fix two security holes exposed in BGP protocols. The feds worried a hacker could exploit the new gaps and affect "a large segment of the Internet community."

More often, however, the response of government and business is sluggish or nonexistent. A year ago a new cybersecurity standard for electric utilities was set by an industry advisory group, the North American Electric Reliability Council, which was formed in 1968 after the blackout in New York City. Earlier this year the utilities filed reports revealing their level of compliance—but the council won't release the results.

"My guess is the results of those self-audits were real poor,"

Jihadists@Work

THE ATTACKERS WERE SLOPPY. ONE OF THEM, ABR AHEEM, posted a message in Arabic on a Web site translated as "the terror.com," advertising that the Electronic Al-Qasam Brigade would be conducting an attack. Another, Sakir Al-Qaida, bragged that he had more than 3,000 people who could help. He later posted a link to instructions on how to execute a simple denial-of-service attack on a Web site. They planned to strike four days later, at 9 p.m. Mecca time.

Watching this all go down were the Arabic-speaking hackers at IDefense, a Reston, Va. intelligence outfit. They notified clients in the financial services industry of the threat. On the day of the attack, in June 2003, the jihadists gathered at an alternate Web site, armed with a target list of Israeli Web sites and a primitive attack tool. Their main target was the Bank of Israel's Web site, but they couldn't shut it down. In an online post later, they described their e-jihad operation as "a flop."

The would-be cyberterrorists, IDefense says, most likely are from Saudi Arabia. And they are admirably diligent. Undeterred by their early failure, they huddled online to do a postmortem on what they had learned; it turns out the software tools in a Net assault need to be uniform among all participants, they noted. Now they prepare for a future effort, concluding in one message: "God willing our next attack will have better performance on our side." —*N.V.*

After crashing into a tree, Michelle Creager and her sons experienced firsthand the valuable assistance of an OnStar® Advisor.

Out of nowhere, there was a voice and she said help was on the way."

n the moments after the crash, Michelle Creager heard two scared little voices. And one reassuring one. On their way to the babysitter's, the Creagers' minivan hit a slick spot on a two-lane highway, plunged down an embankment and slammed into a tree, deploying the air bags and landing in a steep ditch filled with water.

Critically injured, Michelle drifted in and out of consciousness. Four-year-old Evan was still inside the vehicle, while two-year-old Jacob got out of his child safety seat and was crawling through the ditch.

Every month, OnStar helps about 675 subscribers whose air bags have deployed.

OnStar assists in over 11,000 emergencies per month.

OnStar performs about 20,000 GM® Goodwrench® remote diagnostic tests monthly.

Every month, OnStar sends a signal to unlock 34,000 subscribers' doors.

Subscribers make over 5.5 million calls a month with OnStar Personal Calling (a hands-free phone built into your vehicle).

Calculated estimates based on OnStar [illegible] averages (April–June, 2004).

"OnStar knew exactly where I was."

Fortunately, the Creagers' Pontiac Montana was equipped with OnStar. When its air bags went off, it sent a signal to the OnStar Call Center. A highly trained OnStar Advisor received Michelle's name, vehicle description and location on a computer screen (using Global Positioning System satellites), as well as contact information for the nearest emergency services.

Within seconds, the Advisor attempted to contact the Creagers, her voice coming through the vehicle's stereo speakers. When the Advisor heard only children crying, she quickly contacted local authorities and stayed on the line until help arrived.

"She heard my son's cry for help."

"I remember waking up and trying to respond to the Advisor," Michelle recalls. "She was excellent. And hearing her voice helped my little boy. Even though I couldn't talk to him, he knew someone could hear him calling for help."

Assistance arrived quickly. Everyone was transported to a nearby hospital where the children were released late that day. Michelle was hospitalized for a week but has now recovered.

A rescuer later told Michelle that OnStar's ability to locate their vehicle and call the closest emergency providers brought them help at least 10 minutes sooner. "The response time was critical."

"My cell phone was in the ditch."

Michelle thought she was prepared for anything because she had her cell phone. "But there was no way I could have gotten to it. It had

In the "golden hour," every minute counts.

"The more rapidly we get the patient to the hospital, the better the chance of treating their injuries," says Stephen M. Cohn, M.D., chief of Trauma and Surgical Critical Care Divisions, University of Miami.

The 60-minute period following a crash is so critical that emergency crews refer to it as the "golden hour," Cohn says. "We have the best chance of saving their lives within that golden hour."

Today, more than 2 million vehicles have OnStar service, which automatically contacts OnStar if the air bags deploy, provides the vehicle's location and contacts help for victims as fast as possible.

"Ultimately, I would like to see all vehicles equipped with these devices," Cohn notes.

down out of the car," she says. A lot of people feel that a cell phone is their safety net. But you can't predict that you'll be coherent enough or physically able to get to your cell phone."

OnStar looked out for us."

We were very fortunate that someone was looking out for us," says Michelle's husband, Chad. "It could have turned out a lot differently. It could have been awful. I think about it a lot, like every morning at 6:30. I could be sitting alone in this house. If it was up to me, every automaker would provide OnStar."

With their minivan totaled, the Creagers replaced it with another GM vehicle. And of course it has OnStar. "I won't have a vehicle without it," she says.

GM Continuous Safety

General Motors is the only automotive manufacturer committed to offering a full range of cars, trucks and SUVs which offer safety protection before, during and after vehicle collisions.

BEFORE

GM's safety focus begins with features that help drivers avoid collisions.

- **Antilock Brake System (ABS)**
  ABS reduces wheel lockup, helping drivers maintain steering control while braking hard on most slippery surfaces.

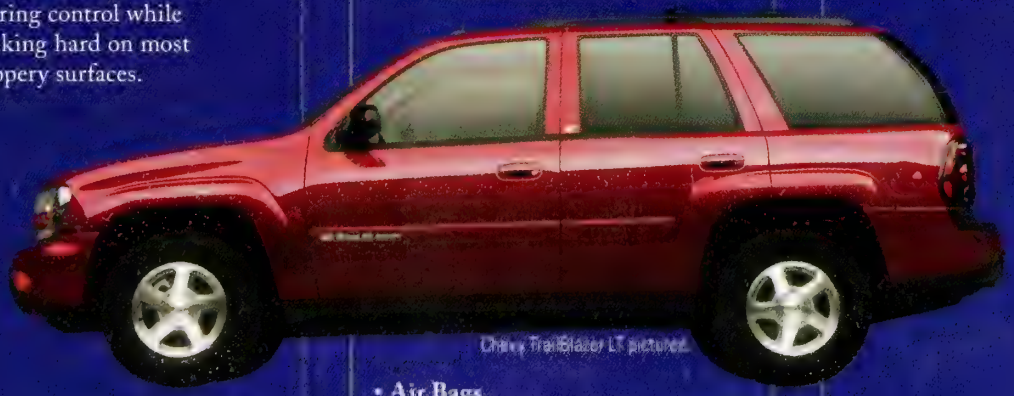
- **All-Wheel Drive**
  When the drive system senses a drive wheel slipping, AWD transfers torque to all wheels for added traction.

- **Traction Control**
  Traction Control helps reduce wheel spin on most slippery surfaces.

DURING

When a crash is unavoidable, GM vehicles are designed to reduce the risk of injury.

- **Crush Zones**
  Front and rear body structure helps absorb energy by deforming in a controlled manner during a collision.



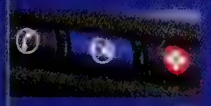
Chevy TrailBlazer LT pictured.

- **Air Bags**
  Supplementing the safety belt system, front air bags help restrain the driver and front passenger in moderate to severe front impacts.*

- **Safety Cage**
  A high-strength steel safety cage surrounds the passenger compartment, helping protect everyone and everything inside.

AFTER

GM leads the way in helping to get the right kind of assistance to injured motorists after a collision.



- **OnStar by GM**
  If your air bags deploy, OnStar-equipped vehicles send a signal to a highly trained OnStar Advisor, who contacts you to see if you need help. You can also press the OnStar emergency button anytime you need help.

- **Advanced Automatic Crash Notification**
  AACN automatically notifies OnStar and provides crash information following collisions. AACN uses additional sensors to detect rear and side impacts even if the air bags do not deploy (available on 12 2005 GM models).

OnStar is available on over 50 GM models; some with an MSRP around $16,000.

The first year of OnStar is included on all new OnStar-equipped GM models. After the first year, the Safe & Sound Plan costs just $16.95† a month.

OnStar is available factory-installed on these 2005 models.

CHEVROLET		BUICK	PONTIAC	GMC	Cadillac	HUMMER	SAAB	SATURN
Avalanche	Malibu Maxx	Century	Aztek	Canyon	CTS			
Cavalier	Monte Carlo	LaCrosse	Bonneville	Envoy	DeVille			
Cobalt	Silverado	LeSabre	G6	Envoy XL	Escalade			
Colorado	Suburban	Park Avenue	Grand Prix	Envoy XUV	Escalade ESV	H2	9-5	ION
Corvette	Tahoe	Rainier	Montana	Savana	Escalade EXT	H2 SUT	9-7X	Relay
Equinox	TrailBlazer	Rendezvous	Montana SV6	Sierra	SRX			VUE
Express	TrailBlazer EXT	Terraza	Sunfire	Yukon	STS			
Impala	Uplander		Vibe	Yukon XL	XLR			
Malibu	Venture							

OnStar Services**	Safe & Sound $16.95/month† (U.S.)
Automatic Notification of Air Bag Deployment If your air bags deploy, we'll contact you to ask if you need assistance.	●
Emergency Services At the touch of a button, we can contact emergency services.	●
Stolen-Vehicle Tracking If your vehicle is stolen, an Advisor can help authorities attempt to locate it.	●
Remote Door Unlock An Advisor can send a signal to unlock your doors in most cases.	●
GM® Goodwrench® Remote Diagnostics We can run a remote diagnostic probe of your engine while you're driving.	●
Personal Calling It's a hands-free, voice-activated wireless phone built into your vehicle that uses purchased calling minutes.	●
Roadside Assistance If you need help on the road, we can call a nearby service provider.	●
AccidentAssist Get step-by-step guidance about what to do in the event of an accident.	●
Remote Horn and Lights We can activate your horn and lights to help you quickly locate your vehicle.	●

OnStar by GM

For more information, visit onstar.com.

*Always use safety belts and proper child restraints, even with air bags. Children are safer when properly secured in a rear seat. See the Owner's Manual for more safety information. †Plus tax. Credit card payment required for monthly subscription. **OnStar services require vehicl electrical systems, wireless service and satellite technologies to be available and operating for features to function properly. Ability to locate stolen vehicles and Remote Door Unlock success vary by conditions. Remote Diagnostics not available on all vehicles. Capabilities vary b model. Personal Calling requires Personal Calling-enabled vehicles with existing OnStar service contract and prepaid calling minutes. Available in most markets. OnStar voice recognition system may not work with all voices. Visit onstar.com for system information and details.

GENERAL MOTORS, the GM Emblem, the HUMMER Grille Design, Aztek, Bonneville, Cavalier, Century, Chevy Express, Corvette, CTS, DeVille, Envoy, Escalade, EXT, Grand Prix, H2, HUMMER, Impala, LeSabre, Malibu, Montana, Monte Carlo, Park Avenue, Regal, Rendezvou Savana, Seville, Sierra, Silverado, SRX, STS, Suburban, Sunfire, Tahoe, TrailBlazer, Venture, Vibe and Yukon are registered trademarks and Avalanche, Canyon, Cobalt, Colorado, Equinox, ESV, G6, LaCrosse, Malibu Maxx, Rainier, SV6, Terraza, Uplander, XLR and XUV a trademarks of the General Motors Corporation. SAAB is a registered trademark of SAAB Automobile AB. Saturn, ION and VUE models are registered trademarks and Relay is a trademark of the Saturn Corporation. The OnStar emblem is a registered trademark of OnStar Co ©2004 OnStar Corp. All rights reserved.

says John O'Shea, who recently quit as chief of ABB's $200-million-a-year business selling control systems to electric companies. "After the big blackout [in 2003] there was so much energy to secure the grid, but we have lost that drive."

Government officials could press industry for more urgent measures, but they, too, are behind on the issue. The Department of Homeland Security has appointed a cyberczar to focus on the online world: Amit Yoran, the founder of information security firm Riptech. But Yoran himself admits that mobilizing a response from industry and government "has been a more challenging process than I ever anticipated."

"There is more infighting and yapping than action," complains Congressman William (Mac) Thornberry [R–Tex.], chairman of a House subcommittee on cybersecurity. "I'm disappointed it took so long for the Homeland Security people to be in place."

Even if the powers that be could agree on a response, it would raise the stickier question of who should pay for it. Homeland Security Undersecretary Frank Libutti, in a speech to corporate tech executives in June, declared: "The private sector must belly up."

And indeed it must; securing corporate networks is a corporate responsibility. But many of the companies behind America's infrastructure are tightly regulated and can't easily pass on new costs to customers. Others are in bad financial shape or must compete in unforgiving markets where price hikes are all but undoable.

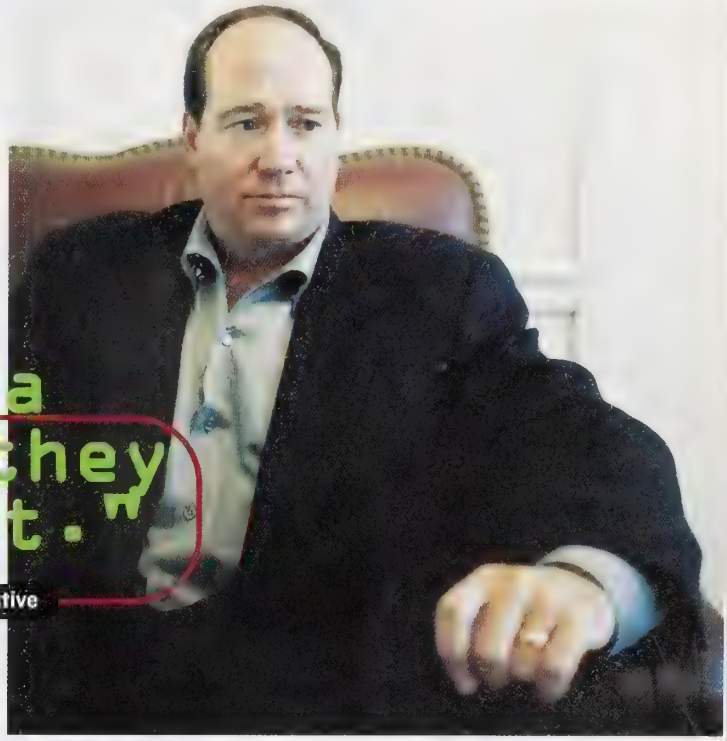
"Companies have to justify the decision to spend money on security," says Rep. Thornberry. He favors using tax breaks to coax corporate spending rather than imposing new rules that require it. "We need a system of incentives for liability protection and tax incentives to energize industry," he says, "but no legislation has been proposed."

As the government hesitates, industry dithers. Utilities say their vendors are late in providing better security; the vendors say the utilities are unwilling to pay for it. "We have a catch-22," says Joseph Weiss, the security consultant in San Jose. "Vendors are reticent to spend millions to develop secure control systems, because the market won't buy it."

Fixing this mess would be incredibly difficult. Thousands of old and already-installed systems are in place but can't be updated in one fell swoop. Because of the way they are designed, a simple software patch for one could disrupt others. New gear is better protected but not widely available. "We have lobbied hard with our suppliers to put more reliable systems in place," says David Kepler, Dow Chemical's chief information officer. "The vendors are not providing them as fast as we would like."

But the giant companies that make control systems—General Electric, Siemens, ABB and others—say that even when they offer new wares with digital armor, customers balk. "No matter what you do, the customer always wants everything for free," says Paul Skare, the manager of Scada development at Siemens. Adds O'Shea: "There are lots of people who would love to jump on the solutions we are offering, but what I am hearing is, 'How am I going to pay for it?'"

Yes, it costs a lot of money to armor-plate software, as Microsoft discovers with each new version of Windows. ABB enlisted the professional hackers in Idaho to find holes in an early version of a new $1.2 million Scada system. Sure enough, it was riddled with weaknesses.



"If al Qaeda can't do it, they can go buy it."

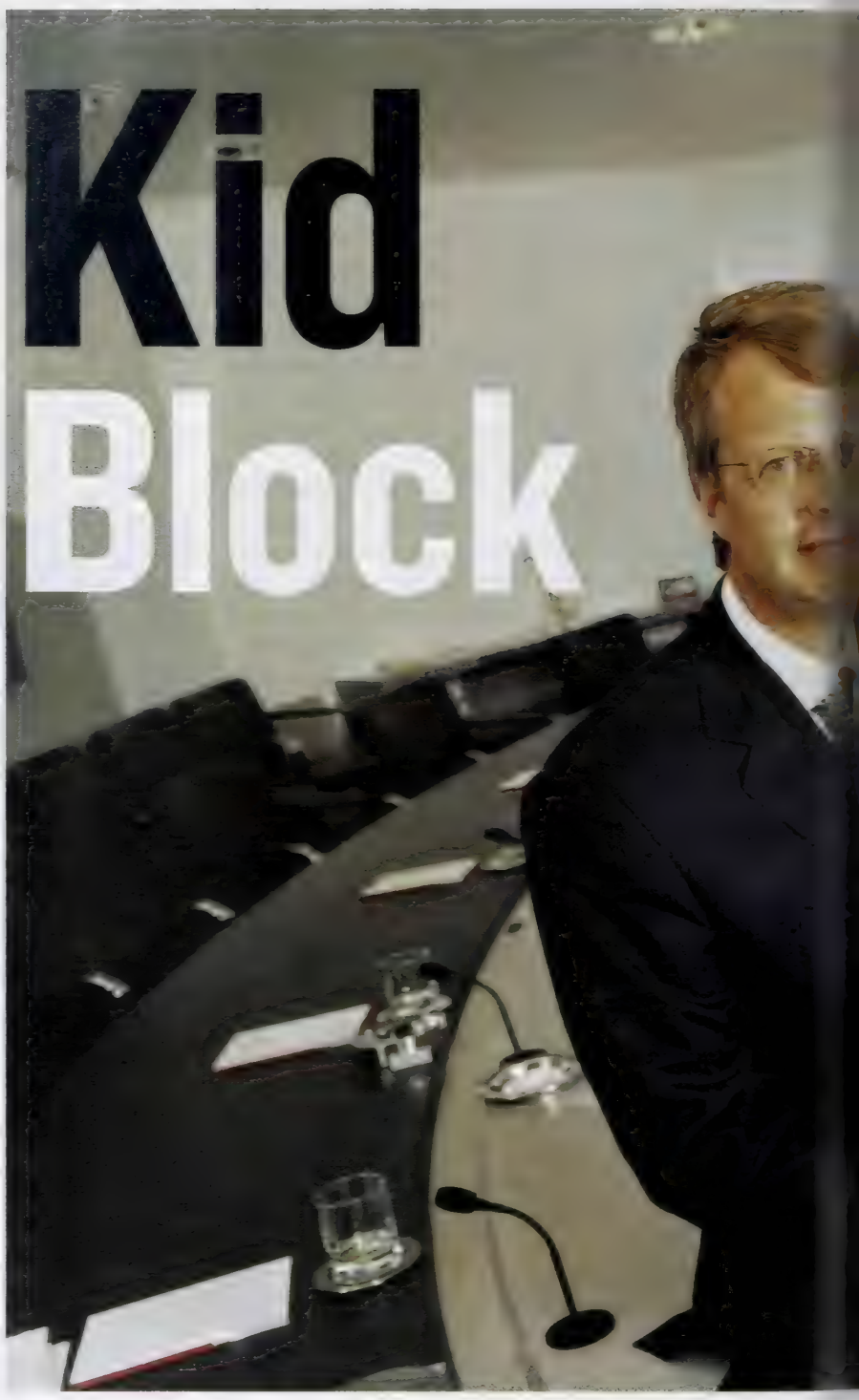
John Watters, IDefense chief executive

Invensys, which sells $1.4 billion a year of control systems and related services to chemical and oil conglomerates, has dispatched 30 specialists to visit clients and help them assess and tighten their control systems. At first Invensys covered the cost, but now it's charging for the service.

In the end, though, someone has to pay to stave off the bad guys; the question is whether American business will take the lead or wait for government—maybe—to force it to act. After the Sept. 11 attacks exposed gaping holes in airline security, the feds took control of the nation's 55,000 airport screeners. The new Department of Homeland Security formed the Transportation Security Administration, which awarded $8.5 billion in contracts and is requesting another $5.3 billion next year. Homeland's cybersecurity division, by contrast, will have a budget next year of less than $80 million.

If another unimaginable attack on America occurs, this time a devastating raid on our networks, what will Congress do? It will commission a panel to look into why we failed to anticipate the threat. F

Big Kid on the Block



UBS is a banking giant, but a Wall Street powerhouse? Oh, yes.

BY ROBERT LENZNER
WITH TATIANA SERAFIN

FOR DECADES WALL STREET'S investment banking fraternity has been dominated by a handful of great American houses—what are now Goldman Sachs, Morgan Stanley, Merrill Lynch and Citigroup (Smith Barney).

Banks across the Atlantic, like Deutsche Bank, ING Barings and Barclays, were always trying to play catch-up in the world's biggest capital market to the home teams. Remarkable, then, that UBS (formerly Union Bank of Switzerland) has swiftly emerged as a contender for top ranking in the league standings. In just 12 years a stream of strategic buys and a drive for profits carried UBS from the back of the pack to the top five in global investment banking revenues. Its Swiss management duo of Marcel Ospel, chairman, and Peter Wuffli, group chief executive, doesn't plan to rest. "We want to be number one in global investment banking," the dapper 54-year-old Ospel tells [illegible]

With nearly as many employees in the U.S. (25,000) as in Switzerland, this is a house, like The Royal Bank of Scotland and Spain's Banco Santander, that's grown out of its regional shell to assume premier proportions in world finance. But it's the push into the rarefied realm of investment banking that sets UBS apart. Its share of U.S. bond and stock deals as well as merger and acquisition fees rose from 1.9% in 1999 to 5.4% in 2003, and this year it ranks just behind Citi, Morgan Stanley, Goldman Sachs and J.P. Morgan Chase. Worldwide, its share of this highly fractured market is 5.6%.

Globally, UBS claims to be responsible for trading one of every nine shares of common stock. It ranks number two in the market for U.S. agency paper. Behind the heft is UBS' not-so-secret weapon. Globally, it has $1.8 trillion of other people's money under management—making it the largest investment manager in

the world (see chart, p. 84). To a legacy of strength in Swiss personal banking, Ospel has added assets assiduously.

"UBS has just been hammering away. They have a guy (Ospel) who has singular vision. If people sway from his vision, he fires them," says James L. Freeman, who teaches finance at Columbia University's business school and is a prominent adviser to Wall Street.

But the UBS brand still escapes much attention. "We have great business momentum, but not enough people know about us," admits John Costas, who turned around the fixed-income unit (where "the revenues were $250 million, and the losses were $250 million") after arriving in 1996 and was rewarded this year with the title of deputy chief executive of UBS AG, the parent. Notably, Costas, who works out of Stamford, Conn., came from the investment banking arm of national rival Credit Suisse. US First Boston's woes on Wall Street today put UBS' gains in even starker relief.

The march to contention began in 1992, when Swiss Bank Corp. (now part of UBS) made its first foray into the U.S. Ospel, a veteran of London and New York securities posts at Swiss Bank (and three years at Merrill Lynch) shrewdly acquired for $250 million O'Connor & Associates, a Chicago options and derivatives operation with special insight into the methods of hedging risk in U.S. equity markets. This opened the door to what is now the fastest-growing sector of finance, derivatives, where UBS has a leading franchise. That presence is part of today's juggernaut. The more you're a money player, the more money finds its way to you.

Swiss-hitters:
[illegible]

Two years later Swiss Bank vastly expanded its money management by acquiring for $730 million Brinson Partners, a value-oriented investment firm also in Chicago.

In 1995 Ospel pounced on a vulnerable S.G. Warburg, a revered European merchant bank, which had just seen a ball-flowed consolidation with Morgan Stanley collapse. This $1.3 billion acquisition was followed in 1997 by the $600 million purchase of historic U.S. banking boutique Dillon Read.

Still, Ospel and Swiss Bank were too capital-constrained to reach for the top rung of global investment banking. So in early 1998 they set their sights on a daring move—merging Swiss Bank in Basel with the Zurich whale, Union Bank of Switzerland. UBS (the name of the new combination) became a $1.3 trillion giant in global wealth management.

With $27 billion in combined capital, Ospel could then go after a big Wall Street firm. But much was to shake out before that day would come in 2000.

Ospel's insistence on merging into UBS had entailed a huge execution risk. He'd gone forward in deep secrecy with limited due diligence. That kept him from seeing a danger long in the burgeoning derivatives business and led him to underestimate the labor-law barriers to consolidating Swiss banking staff.

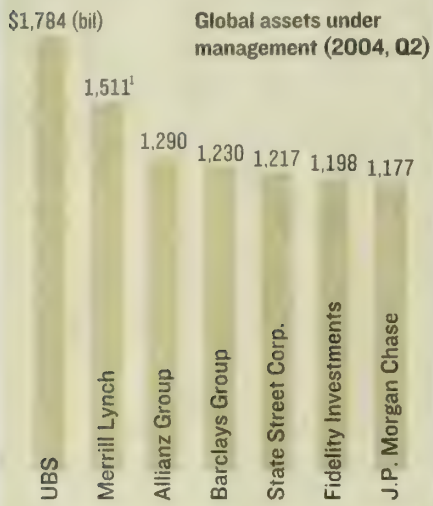
The derivatives debacle came as Asian and other developing-country markets were struck by a financial crisis that reached the door of the Long-Term Capital Management hedge fund. As part of a complex deal with Long-Term Capital, UBS was left holding a $900 million bag in the fund's sudden demise, part of a $1.5 billion derivatives writedown for the year. The financial fallout led to an overhaul of UBS' management. Mathis Cabiallavetta, chairman, and three other ranking executives were out. This opened the way for Ospel and others from SBC, including his chief financial officer, Wuffli, an ex-McKinsey consultant, to step up.

The new team closed retail branches to speed the staff pruning. Costas raided talent to build up the bond business, which is U.S.-centered and accounted for nearly a quarter of UBS profits in 2003.

In equities, some hurdles remained. Chief among them was the lack of a stock and bond distribution network. So, during a New Year's 2000 management dinner in Zurich, Ospel decided to go after FaineWebber. This firm had 385

Other People's Money

UBS leads the world's financial institutions in total wealth managed, a plus in its hunt for investment-banking business.



[1]Includes cash management accounts.
Sources: UBS; companies.

retail offices and 8,550 brokers taking care of $452 billion, and included the old Kidder, Peabody's profitable mortgage financing business, ranked first in Street listings.

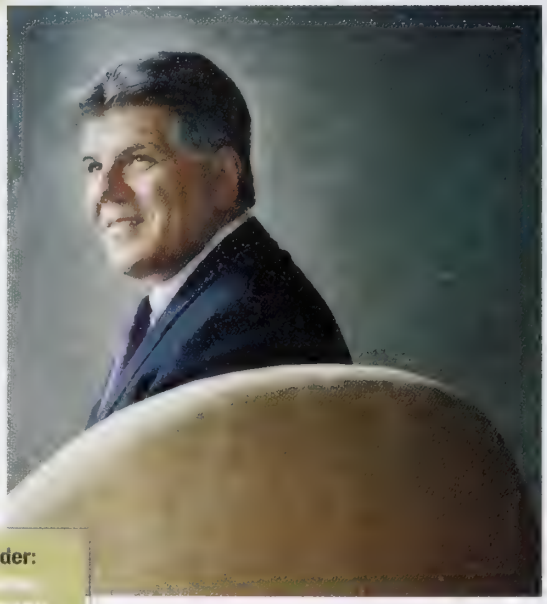
For $11.8 billion UBS bought itself a place in the bulge bracket of investment banking. It was a better strategic acquisition than Credit Suisse's $11.5 billion purchase of DLJ (formerly Donaldson, Lufkin & Jenrette) the same year. CSFB has been in seemingly constant management turmoil ever since.

By comparison, UBS integrated PaineWebber quickly, absorbing its mortgage banking and municipal operations into its own investment bank. There wasn't the confusion that followed the takeover of J.P. Morgan by Chase Manhattan in 2001, either. Rather, UBS took advantage of unsettled times on The Street by relieving other firms of star bankers. Costas has invested $200 million in annual payroll and other investment banking initiatives. He's beginning to get that outlay back. In the last year the M&A unit has begun to make money.

Credit also an early defector, Kenneth Moelis. He'd been a star at DLJ in Los Angeles for ten years, heading investment banking in the Americas, after a stint at Drexel Burnham Lambert. In 2001 he signed up with Ospel and Wuffli in a similar capacity. Known for keeping his own ego in check, Moelis has a feel for what nurtures dealmakers. After Philip Purcell took over at Morgan Stanley and got on the wrong side of some investment bankers, Moelis made them part of the half-dozen big hitters snatched away to UBS.

Now joint head of global investment banking at 46 and traveling 125 days a year, Moelis recalls his challenge, "We're not a brand name yet. So we have to get the bankers that can drag the brand to the client." From the outset he gave his crew five years to pull it off.

In building a book Costas relies on Moelis' client feel and has no desire to emulate the Citi or Morgan Chase model of bridging corporate and investment banking. "UBS doesn't like corporate lending, because it has lousy returns. We should be able to earn a higher return on capital because Citi is more capital-intensive," Costas says. UBS is happy to exploit its wealth management pile and—not trivially—maintain a lead retail banking position in Switzerland.



Big spender:

So far, so good. From an initial annual group loss of $460 million, when UBS was hit with restructuring charges, the company turned around to a $5.1 billion gain in 2003. First-half results for 2004 are on track to exceed that. Return on equity has been above 25% this year, higher than at Citi or Goldman Sachs.

UBS doesn't hoard all of its 8 million worldwide clients' assets. It maintains open access to outside products. In some cases clients can just go online to buy and sell in Europe, Asia and the U.S. In other cases they must pay a wrap fee for access to certain funds and outside investment managers.

But don't think UBS is casual about its brand. Every operation, from O'Connor to Warburg to Swiss Bank to PaineWebber, is now called UBS. The firm is spending millions on ads that try to project an image of warmth. "You and Us," says the voiceover. Nothing coldly Swiss about it.

Like all global investment banks, UBS has experienced its share of scandals, fines and lawsuits. Its biggest hit was a $100 million fine paid to the Federal Reserve for violating the prohibition against trading U.S. banknotes with nations such as Iraq, Libya and Iran. The violations were discovered by U.S. troops in Iraq who found bundles of U.S. dollars that were traced back to UBS warehouses where old banknotes were exchanged for new ones. "Several" UBS employees were terminated, and the bank exited the business.

UBS also had to pay a $60 million fine in the $1.4 billion settlement over stock research recommendations. More recently it has been sued by the administrators of the bankrupt Italian giant Parmalat to recover $350 million from a financing UBS arranged after allegedly finding Parmalat "financially sound." And UBS and its top health care banker, Benjamin Lorello, are being probed by Congress for helping to finance funky HealthSouth. UBS denies wrongdoing in either corporate case.

But to this asset-rich bank, those are bumps less unsettling than what they overcame in 1998. UBS executives know they must press the fight to Wall Street's biggest if they hope to meet Ospel's brash target. "UBS is not through expanding," vows Wuffli. "We continue to look to gain a foothold in Japan and greater China." F

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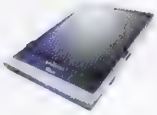

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THE ENLIGHTENED BUSINESS TRAVELER

Written and Produced by Mark Patiky

Flying Higher Than Ever

Corporate aviation is revolutionizing the way business is done as never before. The migration to private aircraft that began during the boom of the '90s continues.

This transformation is being driven by a trio of factors: First is the growing accessibility that makes business aircraft benefits more affordable, customizable and simpler than ever. Fractional ownership programs, high-quality, global charter and new membership card programs combine to give potential users more ways than ever to use business jets and turboprops efficiently and economically.

Second is the realization of the myriad competitive advantages business aircraft bestows on its users. For example, a business jet helped one software company grow eight times its initial size in less than six years.

It allowed another company to slash costs by locating away from a metropolitan area while keeping in close contact with customers and prospects in far-flung locations. And it's enabled a conglomerate to attract and keep the talented executives who propel its success.

The third major factor driving this unprecedented phenomenon is the growing inconvenience of commercial air travel. According to the Federal Aviation Administration, 2004 is on pace to be the worst year in aviation history for flight delays. Chicago's O'Hare airport alone had more than 58,000 delays in the first half of the year. Add to that the missed connections and long lines at security checkpoints, and it's no wonder many organizations have turned to alternative travel solutions.

A COMPETITIVE ADVANTAGE

Whatever draws them to business aviation, users quickly discover the bottom-line benefits. According to NBAA (National Business Aviation Association) interim President and Chief Executive Officer Donald Baldwin, in the U.S. alone, more than 10,000 companies own over 15,000 business aircraft, nearly 6,000 more own fractional shares and additional thousands regularly charter business aircraft. These companies are seeking "efficient time management and competitive advantages across the board," he says. They are doing so by taking more people to more places, confirming that time is money and employee time has immeasurable value. "You are seeing whole new groups at various management levels having access to the company plane," says Baldwin.

AIR TRANSPORTATION FOR THE 21ST CENTURY

You'll learn about all these issues in the following pages. This special report has a complete rundown of access options and the major providers behind them. You'll meet a variety of business aviation users and see why they've become devout believers in the economy, efficiency and flexibility of private jet travel. You'll discover the keys to profitability found in the thousands of communities across the nation that business aircraft make accessible today. And you'll glimpse the new aircraft, services and advances that will drive the growth of this market.

"Historically, the public had a kind of two-dimensional view

The Enlightened Business Traveler

of aviation: it was either airlines or it was a small plane," says James Coyne, president of the National Air Transportation Association. "In the last 10 years, aviation has gone to a three-dimensional model, and the third dimension is private jet travel. This is going to be the dimension of aviation that defines 21st-century air transportation."

FLIGHT LOG
Avacus Corporation

Located on California's Central Coast between rolling hillsides near San Luis Obispo is Rancho Arroyo Grande Winery. It is just one of an eclectic group of companies, ranging from cosmetics and law to construction and financial services, owned by Santa Monica, Calif.-based Avacus Corporation. With business interests across the nation and beyond, Avacus Chief Executive Officer Gary Verboon is usually in a hurry. His most essential business tool is his Embraer Legacy. Based on the highly successful Brazilian regional airliner, the Legacy, which has intercontinental range, features one of the largest cabins and baggage areas of any corporate aircraft, yet is attractively priced like a midsize jet.

Verboon truly discovered the impact a business aircraft could have when his company became national in scope. Our aircraft "have proven to be a very key factor in our ability to grow and be more productive than our competition," he says. "It is the only way to be effective when you need to be in multiple cities in a short time, none of which are easily connected by airlines."

Space Ship

The Legacy, with its 13-seat cabin and three separate compartments, enables Avacus to bring large management groups to frequent meetings across the nation. "I'm going coast to coast and back with the executives of my financial services company, and we're not going to miss a beat," Verboon says. Traveling in spacious comfort, the group can work en route as easily as in the office, and with an enormous baggage capacity larger than any other business jet, they can carry large volumes of samples, cases of wines, displays for trade shows and copious amounts of luggage.

Equipped with satellite communications, the seven people on board will remain in constant touch by phone, fax and data and receive news, weather and market updates at the touch of a button. "We're productive the whole way," says Verboon, adding that client meetings are frequently held on the plane even after landing.

In a company dependent on travel, Verboon is convinced that the business jet has enabled him to retain his most talented people. As for the effect on the bottom line: "There's no doubt in my mind," he says. "Our growth is largely attributable to our ability to be so flexible, so nimble and so immediately responsive." ✈

> "OUR GROWTH IS LARGELY ATTRIBUTABLE TO OUR ABILITY TO BE SO FLEXIBLE, SO NIMBLE AND SO IMMEDIATELY RESPONSIVE."
>
> Gary Verboon, Chief Executive Officer, Avacus Corporation

OWNING THE ULTIMATE PRODUCTIVITY TOOL

While fractional ownership and mem bership card programs have broadenec the options for accessing business aircraf benefits, outright ownership is the choic for more than 14,000 companies anc individuals across the globe that operat their own business jets and turboprops.

The long-standing benchmark for ful ownership was 300 or more flight-hour per year; new realities, however, hav altered this calculation. The enhance ability to offer an underutilized plane fo charter through a charter managemen organization that can generate revenue has been the impetus for some new aircraft sales.

Additionally, tax rulings now under Congressiona review for extension, have als encouraged new-aircraft own ership, says tax attorne Richard Johnson of Waller Lansden, Dortch and Davis i Nashville, Tenn. "With com bined accelerated and bonu depreciation, up to 60% o the purchase price can b deducted to offset income i the first year," he says.

Although many companie have the motivation an financial ability to buy, the may lack the inclination o resources to manage a flight operatio in-house, including crews, maintenanc and hangarage, as well as regulatory an tax issues.

Notes Bill de Decker of Conklin & de Decker, the Boston-based busines aircraft consultancy, "all of the necessar functions can be outsourced to professional management firm that wil handle the ownership and operationa responsibilities."

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Outsourcing Ownership Obligations

Many quality organizations outsource their ownership obligatons, but John Thomas, senior vice president and general manager of Jet Aviation Aircraft Management, recommends dealing with the largest companies in order to gain much more than just the professional skills essential to maintaining and operating the aircraft. Because of its global presence and sizable managed aircraft fleet, Jet Aviation and others like it have the volume and buying clout to negotiate substantial discounts on fuel, training, insurance, parts and other services. These savings are passed on to the owner, resulting in lower operating costs. Leading aircraft management companies such as Jet Aviation, Executive Jet Management, TAG Aviation and PrivatAir also offer excellent consulting services, guiding clients to the best choices in the new or used market.

In addition, independent consultants like de Decker perform an invaluable service in demystifying the options. His firm specializes in aircraft cost and operations analysis for manufacturers, service providers and consumers. "We have a software model that allows you to lay out the budget and compare acquisition alternatives from a financial viewpoint," says de Decker. "We present a complete analysis of that acquisition."

NBAA's Baldwin notes that an important incentive for buyers is the wide range of new aircraft choices and new technologies coming on the market that enhance productivity and safety. On the other hand, high-quality, preowned aircraft are particularly affordable and represent significant value, particularly if they are enhanced with refurbished interiors and the latest avionics upgrades.

Great Values in Old Favorites

CRST, a Cedar Rapids, Iowa-based trucking and transportation services company, bought a Dassault Falcon 20, retrofitted new-technology engines and increased the aircraft's capabilities, performance and range while lowering operating costs. According to Chief Executive Officer John Smith, Jr., the combined cost of the purchase and retrofit was significantly below the price of a new aircraft of the same class.

James Harrison, completions manager at Jet Aviation Palm Beach, Fla., agrees with that philosophy. His skilled craftspeople completely transformed a similar aircraft with a new exterior paint scheme, the latest "glass cockpit" digital instrumentation and custom designed and finished cabin appointments. The result was looks and functionality that rival the newest aircraft. Harrison also specializes in bringing new life to large-cabin jets by creating more spacious and useful interiors with reconfigured seats, newly designed cabinetry, exotic wood veneers and custom-designed carpets. "You dream it and we can design it, build it, make it functional and airworthy," Harrison says.

Notes Walt Lamon, president of Wyvern Consulting Limited, which audits the safety and quality of the nation's business aviation fleet, "The age of the aircraft is not as important as th condition, and I think a good example o that is Air Force One."

FLIGHT LOG
Owens Corning

When Toledo, Ohio-based Owen Corning, maker of building material and glass fiber reinforcements, wa forced to seek Chapter 11 protectio in the wake of asbestos liability lawsuits the company closely scrutinized its air craft fleet. "As a debtor-in-possession, w have a duty to operate in the best inter ests of all of our creditors," says Owen Corning General Counse Stephen Krull. Is the cost o retaining a corporate fligh department a good busines expense? "We ask that questio on a regular basis," Krull says "and the answer is always resounding yes."

As a global company in highly competitive industr with 156 manufacturing facili ties in 30 countries plus cus tomers and distribution center worldwide, Owens Cornin people have an extensive nee to travel quickly and efficiently Toledo is not in an airline hu city nor are most of the company's desti nations like Amarillo, Tex., Anderson S.C., Jackson, Tenn., or Elkhart, Ind That means their Dassault Falcon 900E and two Raytheon Hawker 800s are har at work every day, and each jet flies mor than 800 hours per year. In the compan plane, most trips are an hour or two an passengers arrive minutes from the plan or facility. Commercially, many of thes

> "OUR COMPANY HAS HAD SIGNIFICANT GROWTH FROM MERGERS AND ACQUISITIONS, AND TIMING IN THOSE TRANSACTIONS CAN BE CRITICAL . . . WE USE THE AIRPLANES AS MEETING ROOMS IN THE SKY."
>
> Stephen Krull, General Counsel, Owens Corning

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destinations take a full day or more. "We generally have very high passenger utilization per flight, and we've found that the per-person cost of transporting people from point to point is generally less expensive on our corporate aircraft than on a commercial flight," says Terry Smith, Owens Corning's director of aviation services, and that's not even taking into account the value of their time.

Empowering Employee Productivity

It is not uncommon for the aircraft to make four or more stops per day, and any employee with a compelling business reason to use the planes can, says Smith. Last year nearly 7,000 different passengers grabbed the opportunity, saving the company tens of thousands of hours in productive time.

In addition, the jets frequently bring customers and prospects to manufacturing facilities and customer events, which they might not otherwise visit when confronting commercial schedules. "That can be a huge competitive advantage," Krull emphasizes. On the flight, the relationship building, which begins immediately, is a vital ingredient in developing new business. "Those intangible benefits are very, very real," he says.

With its global reach and large, comfortable cabin, the Falcon 900EX easily links clients and manufacturing facilities half a world away. The sophisticated avionics, high-tech safety enhancements and satellite communications system assure a safe, productive flight on the long transoceanic legs to Shanghai, Beijing or South Korea.

"Our company has had significant growth from mergers and acquisitions," notes Krull, "and timing in those transactions can be critical." In that regard, the planes have proven to be incredibly effective tools, he says. During those flights, the cabin presents a secure environment to discuss confidential issues. "We use the airplanes as meeting rooms in the sky," Krull says. "They are comfortable and controlled, so we can get a lot more done."

The company has been operating its own aircraft for more than 50 years with an unblemished safety record. The corporate planes have consistently proven to be the best tools for the job. "Time and time again we have been able to demonstrate the value and justify the continuing role of corporate aircraft within Owens Corning," says Krull. "They are very valuable company assets, and we are committed to using them wisely." ✈

CHARTER: THE EASIEST WAY TO FLY

Charter is one of the easiest ways to gain business aircraft benefits. There are no long-term commitments, capital investments or monthly fees. You can charter once a week or once in a while. Either way, you pay only for what you need when you need it.

For those who head out and return within a day or so, on-demand charter is absolutely the most cost-effective way to go, says Steve Wilson, Jet Aviation senior vice president and general manager for charter. However, for frequent one-way travelers, he recommends a card program like Jet Aviation's Privileged Travel as the best deal. Jet Aviation has one of the world's largest fleets of managed and charter aircraft.

Card programs are simple, says Wilson, and you can use them to fly to or from anywhere in the nation. "You buy a block of hours, you call one number and you go," he says. Although per-flight-hour rates are slightly higher with the travel card, the trip cost is actually lower because you pay only for occupied time and not an empty return flight. With the Jet Aviation Privileged Travel card, if you do make the return trip, then a discount applies, bringing the ultimate cost closer to a traditional charter rate.

Growing Economy Demands Travel Efficiency

As the post-2002 economy gains steam, top charter firms like Jet Aviation, PrivatAir and Executive Jet Management (EJM) are reporting a strong uptick in demand. While some charter customers are purely seeking travel convenience and comfort, a broad spectrum is searching for value and opportunity.

Greg Thomas, PrivatAir chief executive officer, reports, "We are seeing larger groups traveling, and they are looking for bigger 10-, 12- or 14-passenger airplanes." These charter customers are acknowledging the value of middle management time, and their companies are ensuring that their people have the productivity tools to do the job. "Economically, it's a very sound decision," adds Wilson.

Al Pod, chief executive officer of Executive Jet Management, a NetJets company, points out that most charter aircraft are not owned by the provider

CHARTER IS ONE OF THE EASIEST WAYS TO GAIN BUSINESS AIRCRAFT BENEFITS. THERE ARE NO LONG-TERM COMMITMENTS, CAPITAL INVESTMENTS OR MONTHLY FEES.

DATE	TAKEOFF	PASSENGERS	LANDING
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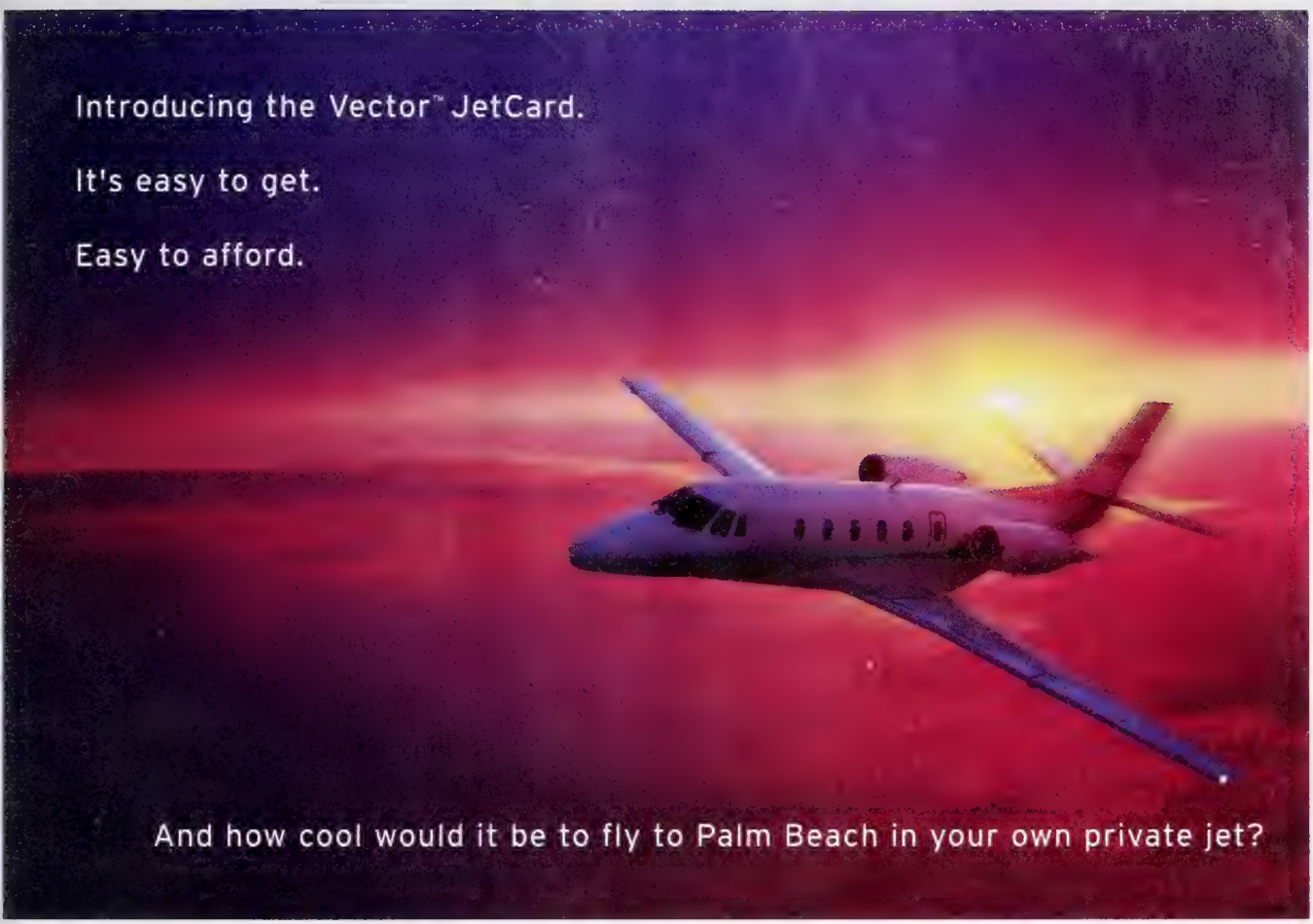

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but by independent companies that aren't fully utilizing the airplanes themselves. These companies, many of which are America's leading corporations, make their aircraft available for charter when they are otherwise not in use. In many cases, that charter provider manages the aircraft fully, ensuring regulatory compliance, supplying crews and providing training, hangarage and fueling dispatch, plus a host of other services. For the aircraft owner, charter can generate revenues to recoup some fixed ownership costs and possibly reap tax benefits.

Shuttles: The In-House Virtual Airline

Charter providers are also fielding renewed demand for scheduled shuttle flights — a virtual private airline focused on moving large employee-groups quickly and efficiently between plant and facility sites.

EJM runs several domestic shuttles using corporate aircraft that include the large-cabin Embraer Legacy, and PrivatAir operates a scheduled shuttle in Europe for Airbus. Based on fare comparisons alone, the shuttles are less expensive, but most compelling are the tens of thousands of productive hours that can be saved annually.

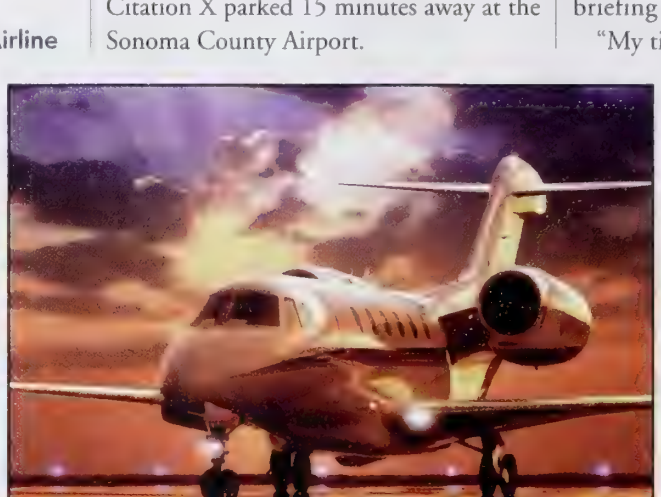
While the leading charter companies provide global jet charter to anywhere in the world, achieving the highest levels of safety and service, there are thousands of other charter companies that meet only minimal requirements of the Federal Aviation Administration. Caveat emptor applies.

Bob Breiling, whose company, Robert E. Breiling Associates, tracks safety statistics for the aviation industry, recommends questioning the operator intensively about maintenance, pilot experience and training, as well as ensuring they meet the safety standards of third-party auditing firms such as Wyvern or ARG/US.

One litmus test is to physically inspect the aircraft and the facility, says Breiling. "If it looks sloppy and unprofessional, it probably is."

FLIGHT LOG
Korbel Champagne Cellars

Time is as important to Gary Heck as it is to grapes on the vine and the Old World tradition of champagne production. Heck is chairman and president of Korbel Champagne Cellars, America's oldest and number-one-selling premier champagne producer. His "time-machine" is the world's fastest civilian jet, a near-supersonic Cessna Citation X parked 15 minutes away at the Sonoma County Airport.



"It's a tremendous business tool," he says. "I just couldn't do my job without it." To maintain that close contact with distributors and major retailers, Heck will frequently visit three cities in a day, criss-crossing the nation with a sales team of six or more associates.

"This is a business where personal relationships are essential," he emphasizes. "You have to meet people face-to-face." Using the corporate jet, he can do that with ease.

Time-Saver Extraordinaire

"We're also saving a tremendou amount of time," Heck says, detailin a "whirlwind" trip across the Northeas followed by another around Florida. E route, he picks up area managers and th Citation's cabin becomes a flying confer ence room as they discuss shipment sales and promotional programs. "By th time we land, we're fully briefed an we're right on top of everything," say Heck. Trips like these would be imposs ble commercially, he says. "By the tim I'm aboard an airliner, I can be landin in Dallas after completing a full sale briefing en route.

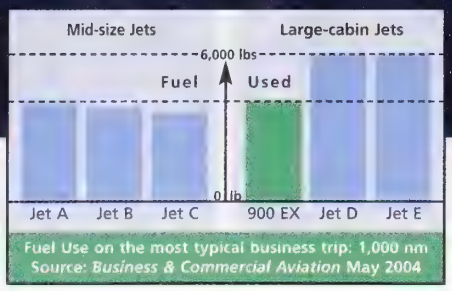
"My time is probably the most valuabl thing I have," Heck emphasize The fast Citation X gives hi the ability to be on the road an still run the company. "It's mad our business much more eff cient," he says.

FRACTIONAL OWNERSHIP: FULL BENEFITS AT FRACTIONAL COST

Fractional ownership remain among the most popular an efficient ways to take advan tage of business aircraft bene fits. At a fraction of the cost a whole airplane, fraction owners gain the tax advantages and fu benefits of a business aircraft but withou the operational demands. At their mo basic, fractional programs sell "shares" i an aircraft, giving owners guaranteed us for a set number of hours per year. sixteenth share, for example, the min mum available, gives owners 50 flight hours per year and an eighth or a qua ter share provides 100 or 200 annu hours of utilization, respectively. Now,

> "[OUR COMPANY JET] IS A TREMENDOUS BUSINESS TOOL. I JUST COULDN'T DO MY JOB WITHOUT IT . . . MY TIME IS PROBABLY THE MOST VALUABLE THING I HAVE."
>
> Gary Heck, Chairman & President, Korbel Champagne Cellars

SURE, YOU CAN AFFORD TO BURN 40% MORE FUEL THAN A FALCON 900EX OR DX. BUT WHY WOULD YOU WANT TO?



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host of new options makes fractional ownership even more flexible and cost-effective, enabling customers to select a program that fits their needs precisely.

Stellar Service and Uncompromised Safety

Four major companies with impeccable service and safety records dominate the fractional marketplace: NetJets (which invented the idea), Flight Options, Bombardier Flexjet and CitationShares. Additionally, providers such as Avantair and PlaneSense offer fractional share plans that cater to regional markets.

Fractional Ownership: NetJets

NetJets, a Berkshire Hathaway company, claims the largest aircraft fleet and number of owners. By year's end, the company will offer 16 different aircraft choices in the U.S. in the small, midsize, large-cabin and ultra-long-range categories, and NetJets exclusively offers fractional share programs in Europe and the Middle East. The company reports particularly strong owner interest in the long-range and ultra-long-range aircraft, signaling an increased focus on global markets.

To service this growing need, NetJets introduced the Gulfstream G-IV and G-V to its European fleet and eliminated ferry fees on flights between the U.S. and Europe aboard these aircraft, enabling a U.S. owner to fly at regular rates to Europe and then select among a variety of NetJets aircraft for intra-European destinations.

NetJets offers owners and Marquis Jet Card members unique value-added services, such as the Mayo Clinic Executive Travel Response, which provides access to free consultations with Mayo Clinic medical professionals 24 hours a day, and comprehensive medical assistance while aloft (all flight crews receive training from the Mayo Clinic) if necessary. Opportunities to attend the Breeders' Cup, the U.S. (golf) Open and other music, arts and sporting events are also part of NetJets membership privileges.

Fractional Ownership: Flight Options

Flight Options, which is backed by the Raytheon Company, offers a wide variety of preowned aircraft value priced at lower-than-new acquisition cost, as well as brand-new Raytheon aircraft, including the latest Hawker 400 and 800XP. Chief Operating Officer Michael Scheeringa reports owners are steadily transitioning into the newer aircraft. The large-cabin Embraer Legacy, exclusively offered in a fractional share program by Flight Options, is gaining considerable attention. The 13-seat Legacy features a massive cabin with the comfort, amenities and range of a large intercontinental business aircraft at the price and hourly cost of a midsize jet.

Flight Options also introduced its own two-year lease program that eliminates the up-front capital investment and five-year commitment that are standard in basic fractional ownership programs. In addition, Flight Options has a mix-and-match, 75/25 combo plan where one can buy shares in two different aircraft based on varied requirements. And with it new "Global Access" program, owner can utilize aircraft in Europe and Asi that meet Flight Options' standards fo safety, service and consistency. These ar available on a per-trip basis with n monthly management fees or block-hou purchases necessary.

FLIGHT LOG
Tom Sullivan, KFBK Talk Radio

"This is NewsTalk 1530 KFBK, Ton Sullivan with you," exudes the deep, rich coffee-stained voice. Sullivan is Sacramen to, Calif.'s number-one radio talk show host. He is also KFBK's busi ness editor, financial expert fo TV station KCRA and pinch hitter for KFBK alumnus an talk radio superstar Rush Limbaugh. His "spare-time job is running a highly success ful boutique investment firm called The Sullivan Group When this perennially popula radio personality is off th airwaves, he's often in the ai aboard his business jet — a Flight Options, Cessn Citation Jet — which he credit for helping propel his succes both on and off the radio dial

For Sullivan, whose schedule is intense gaining travel flexibility is essential. "W have numerous investment client throughout California, so I need to ge out and meet with them and get bac quickly to take care of the broadcast sid of my life," he says.

Sullivan began chartering aircraft but wise investment adviser that he is searched for the most economical solu tion for his varied needs, concluding tha fractional ownership made the mos

> "WHEN YOU HAVE ACCESS TO AN AIRCRAFT LIKE THIS, IT CHANGES THE WAY YOU DO BUSINESS AND LIVE YOUR LIFE."
>
> Tom Sullivan, KFBK Talk Radio

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sense. He considered carefully before deciding on Flight Options. "I would rather have fractional ownership, gain the tax benefits and the predictability of the service and know whom I'm dealing with," he says.

Changing the Way You Do Business

When he receives a call to pitch in for Rush, Sullivan departs from his home at 5 a.m. on the show date, jets to Los Angeles and lands minutes from the studio in Santa Monica, arriving just about an hour later. "Commercially, it would mean departing the night before, wasting a lot of time in airports and staying in a hotel," Sullivan says. Now he's back in Sacramento, in front of the microphone, just after 1 p.m.

Since becoming jet propelled, Sullivan has doubled his fractional interest to 100 annual hours because he is traveling more than anticipated. "You travel differently than you would just using the airlines," he says, describing trips that he wouldn't have made in the past. "I can go anywhere within 1,000 miles, have a meeting and still be back to take care of my broadcasting duties. It would be impossible to do that by airlines."

The newfound freedom never ceases to amaze Sullivan. "When you have access to an aircraft like this, it changes the way you do business and live your life," he says. "Until you experience it, you just can't imagine what it's like." ✈

Fractional Ownership: Flexjet

Bombardier's Flexjet has done much to enhance the original fractional ownership model. Its fractional fleet features Bombardier Learjets and Challengers exclusively, including the new, entry-level Learjet 40 and the new Challenger 300 with a large, wide-body, stand-up cabin at a super-midsize price tag. Vice President of Sales Robert Knebel attributes Flexjet's strong growth to its "fine tuning" of its fractional programs based on owner needs. Traditionally, for example, customers had to guess what their annual usage was likely to be when buying into the program. This "requires customers to be clairvoyant," in Knebel's words. Flexjet's "Versatility Plus" was created, therefore, to enable the sale or purchase of unused or needed hours from an owners pool. The program allows for making incremental usage adjustments in one's specific aircraft and purchasing time in an additional aircraft without buying a full share.

In another accommodation to marketplace reality, Flexjet introduced "intermediate" share sizes, allowing share owners to buy in increments of 25 hours beyond the minimum 50-hour purchase as part of the initial full five-year contract. Flexjet also created "Anytime Options," where for a nominal fee, program features including upgrades and downgrades can be guaranteed when needed. Another unique program is "Five Plus Plus," which enables owners to extend their five-year contract for two successive one-year periods.

A HOST OF NEW OPTIONS MAKES FRACTIONAL OWNERSHIP EVEN MORE FLEXIBLE AND COST-EFFECTIVE.

Fractional Ownership: CitationShares

Originally a regional niche provider, CitationShares, owned by Cessna Aircraft and TAG Aviation, is now national in scope, offers the lowest-cost entry point for new business jet ownership and features brand-new, small-cabin to midsiz Cessna jets including the CJ1, Bravo Excel and now the midsize Sovereig with coast-to-coast range. "Our goal i not only to compete in the marketplace our goal is to expand it," says Chie Executive Officer Steve O'Neill. "Peopl are no longer very interested in travelin on someone else's schedule," he says "The advent of not only fractional own ership but also the jet card business ha brought the price way down to allo many more people to afford it."

CitationShares owners fly a average of 1.4 hours per tri and carry an average of thre passengers. Thus, the small cabin Cessnas are perfect fo these missions. Although mos owners fly regionally, thos with transcontinental trave needs can now upgrade to th midsize Sovereign.

The company's hot ne Vector JetCard program fea tures the same high-qualit Cessna fleet, but O'Neill i intent on controlling progra growth in order to kee the emphasis on high-touch customer-focused service.

FLIGHT LOG
KHS Inc.

Six of Reno Cruz's highly value employees — project managers, engineer and designers — are boarding the compa ny jet at suburban Waukesha Count Airport outside Milwaukee. Once aloft, th group will discuss a developing predica ment at a beverage bottling plant, and i just over an hour they'll be landing at a airfield near that facility. Minutes afte touchdown, they will meet with managers foremen and machine operators and begi to remedy the problem.

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Cruz is chief executive officer of Milwaukee, Wis.-headquartered KHS Inc., one of the nation's largest manufacturers of beverage packaging equipment. The company's dedication to "providing technology-driven solutions that boost productivity and increase efficiency" explains why its newest business tool is a Cessna Citation Excel, or at least an eighth share of one from CitationShares.

Delivering First-Class Customer Support

"We deal with most of the large beverage and food companies throughout the United States," says Cruz, noting that one brewery alone fills as many as 16.5 *billion* bottles a year with KHS equipment. That's not the kind of client to disappoint. "When a machine is running 1,200 bottles a minute and the line is down for an hour, that's a lot of production lost," he says. Not only does a quick response cut the customer's economic loss, it saves vast amounts of time for KHS employees, which translates to astounding value, Cruz adds.

In this situation with six aboard, airfares alone would have cost more than the company jet, but more important, commercially they would have spent the better part of the day traveling and lost a second day on return. "We hire our people for their experience, skills and talent," says Cruz. "If they are rendered ineffective by traveling, that's poor utilization of their time." And that's not even considering the economic impact of the customer's production problem. "You've got to provide that high level of customer service," and when you do, Cruz says, "the travel cost is irrelevant."

Marketing Success Story

Cruz also uses the Citation Excel as a powerful tool to bring prospects from anywhere in the country to customer plants or KHS manufacturing facilities and take them back that evening. "Try convincing a customer to take three days out of his or her schedule flying commercially to take a look at one of your installations," challenges Cruz.

Airline service from Milwaukee put Cruz at the mercy of a schedule that rarely matched his own. "We needed to be able to travel freely," he says. Fractional ownership was KHS's first introduction to a business jet. "I looked at charter and I looked at what we spend on commercial travel and the time lost there and said, 'Gee whiz, this is the best way to go.'" Now he finds it hard to imagine being without his jet. "We consider the time saved, how successful we can be in reaching our ultimate goal of the sale and how effective we can be in meeting our customers' expectations," Cruz says. "[With the company jet], we can provide better service and increase our profitability and growth. Our experience with CitationShares has been terrific."

> "WE HIRE OUR PEOPLE FOR THEIR EXPERIENCE, SKILLS AND TALENT. IF THEY ARE RENDERED INEFFECTIVE BY TRAVELING, THAT'S POOR UTILIZATION OF THEIR TIME."
>
> Reno Cruz, Chief Executive Officer, KHS Inc.

Fractional Ownership: Avantair

Recent start-up Avantair offers fractional shares solely in the Piaggio Avanti, a fast, twin-engine turboprop with an avante-garde design and roomy cabin. The program is focused on serving customers in regional markets where typical trips are 500 to 1,000 miles. The Avanti's short-field performance also allows it to easily negotiate runways that would challenge other jets, opening access to countless additional locations. "The advantage that we have is the Avanti," says Avantair Chief Executive Officer Steven Santo, who holds an exclusive on Avanti fractional share sales. With the speed of a small jet (450mph) combined with high fuel efficiency, a quiet midsize jet cabin and low entry and hourly costs, the Avanti is drawing considerable attention.

Santo points out that most customers are first-time buyers. They quickly realize how effective a business aircraft can be and begin making trips that weren't practical in the past. Because utilization is difficult to gauge at the outset, Avantair customers can "borrow" up to 20% of their hours from a subsequent year to meet unexpected needs. Santo also simplified budgeting by creating a billing plan that spreads hourly usage evenly over a 12-month period and combines that and the management fee into a single monthly bill.

While Santo has no plans to compete with the major fractional ownership providers in terms of program scale and aircraft choices, what will remain consistent with them, he states, is an uncompromised focus on safety and service. "In this market, you can't give just good service," he says. "You have to be perfect."

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FLIGHT LOG
The Body Shop of America Inc.

Headquartered in Jacksonville, Fla., The Body Shop of America has always been on top of fashion trends, but now this clothier, with its selection of youthful, hip-chic fashions, more than 166 company-owned stores and a staff of 3,000, employs a fractional share in an Avantair Piaggio Avanti to shape the latest styles and drive the company's impressive growth.

"The Avanti makes real sense because most of our trips are 700 miles or less," says Chairman and President Jerrold Rosenbaum who, with his wife, opened the first shop in 1973. Aboard the fast, 450mph turboprop Avanti, Rosenbaum points out, "we have a cabin the size of a midsize jet and we get there nearly as fast and at about one-third of the hourly cost."

Because Body Shop stores are hot in college towns where commercial aviation is not, such as Athens, Ga., Tuscaloosa, Ala., Wichita, Kans., and Waco, Tex., traveling by airline from a non-hub airport like Jacksonville is a grueling marathon. "Now we go direct," says Rosenbaum. From local Craig Municipal Airport, he is in the air in 10 minutes and can be in most of his stores within two hours.

Preserving Valuable Assets

Rosenbaum considers flying commercially when on his own, but on many trips, as many as five passengers, including buyers and managers or construction supervisors and architects, will accompany him. "I try to make intelligent business decisions," he says. "If we can fly out and come back the same day, it works out great from an economy standpoint. These employees are my most important assets. If you add up what I pay them, plus consider the productivity that would be lost, it is amazing. They can't be working if they're sitting in an airport or hotel room. And they are a lot happier if they can be home with their families."

An important aspect of the company's success is the time Rosenbaum gains to spend with store managers and staff. In addition, mall managers frequently call him to view vacant store locations. With his newfound travel freedom, Rosenbaum can grab his construction chief and architect and take off to view properties that sound even remotely reasonable. "I make deals that I probably wouldn't have made before because we can make a decision right now," he says. "It is great. I'm totally sold on the Avanti." →

MEMBERSHIP CARDS: NEW AFFORDABILITY AND NATIONWIDE REACH

Today, the hottest trend in gaining business aircraft benefits are membership travel card programs, which uniquely combine charter and fractional ownership advantages into a neat package. Similar to a debit card, members deposit a fixed dollar amount that covers hourly costs in specific aircraft types and assures guaranteed availability and fixed hourly rates that are charged only for tim aboard. The card program also eliminat major capital investments, long-ter commitments and usage restrictior characteristic of fractional ownershi And unlike charter services, card mem bers don't have to pay to bring a plan into position or return an empty aircra to home base. Many card programs full refund any unused portion, while othe either have no time limit or cred unused value to a new card.

Buy It and Fly It

Sentient Jet pioneered th Private Jet Membership cor cept, and since then, unprece dented demand sparked proliferation of other program each offering fascinating varia tions. These travel card pro grams make nationwide acce to a business jet simple and eas "We've taken the capital an expense risk away," sa Sentient Jet Chief Executiv Officer Steven Hankin.

Marquis Jet launched i program in exclusive associa tion with NetJets using the full rang of NetJets aircraft and services. Delt AirElite has partnered with Bombardie Flexjet. Most recently, CitationShare announced Vector JetCard and Fligh Options introduced JetPass, both which are operated in-house and exclu sively utilize their respective fraction ownership fleets.

Charter companies have also joined i including Bombardier Skyjet with i Premier Fleet Jet Card, Jet Aviation wit Privileged Travel and Regal Aviation wit its Jet Concierge program. All of thes companies use top-quality aircraft fro their own charter fleets as well as a sele group of other premium operators.

> "I MAKE DEALS THAT I PROBABLY WOULDN'T HAVE MADE BEFORE BECAUSE WE CAN MAKE A DECISION RIGHT NOW."
>
> Jerrold Rosenbaum, Chairman & President, The Body Shop of America

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Charter-based card programs offer a variety of pricing options, and cards are available in a range of dollar or block-hour amounts. Fractional-based programs sell cards in single-payment, 25-hour increments, but they provide the high-level service and other benefits that fractional owners receive.

Although card programs garner considerable interest from first-time users, they also appeal to fractional owners who need to supplement their annual allocation of flight hours, company executives who want to separate personal travel from company business and aircraft owners with flight needs that their own aircraft can't meet. In addition, for those considering a full-fledged fractional ownership program, the card arrangement that the various fractional providers offer is an excellent introductory "try-before-you-buy" opportunity.

Membership Cards: Marquis Jet

Marquis Jet changed the membership card model by exclusively focusing on 25-hour increments in NetJets aircraft. Cardholders purchase 25 hours in any of 10 specific NetJets aircraft models for a single fee and gain the quality, consistency and advantages of NetJets fractional ownership — including all owner services and Mayo Clinic health benefits plus access to the NetJets fleet throughout Europe.

Marquis recently added the globe-spanning Boeing Business Jet (BBJ) to the program. The Marquis Jet Card has a one-year limit, but unused hours can be rolled over into a new card. However, most cardholders burn through their hours in nine months or less.

Membership Cards: Delta AirElite

Delta AirElite, a Delta Airlines affiliate, in an exclusive partnership with Bombardier Flexjet, created the Flexjet Membership program.

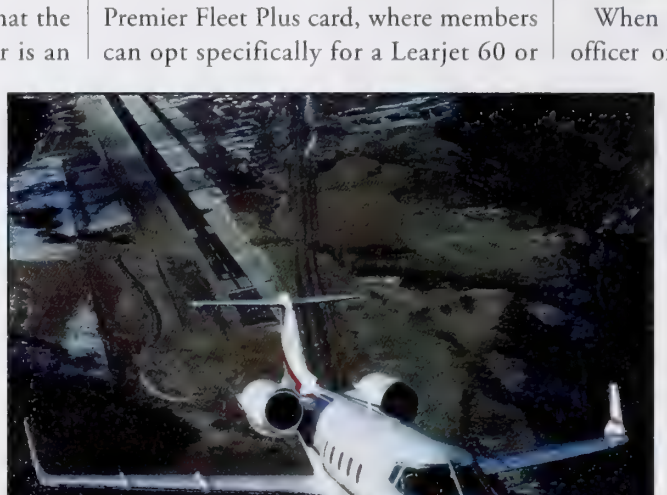
For a onetime, all-inclusive fee, card members receive 25 occupied hours of flight-time in their choice of a Bombardier Flexjet Learjet 31A, Learjet 45, Learjet 60 or Challenger 604. Card members have up to two years to use their hours.

Membership Cards: Skyjet

Bombardier Skyjet offers the Premier Fleet Jet Card. Members can select a block of 25, 50, 100 or more hours in a small-, medium- or large-cabin aircraft at fixed, "no-surprise" rates. Increasing discounts apply to the larger card denominations. Skyjet also offers a 50/50 program for those whose needs vary — half the time is at a one-way rate and the other half at a reduced, round-trip rate, assuming the aircraft returns to its point of origin.

For those who prefer an aircraft-specific program, Skyjet developed the Premier Fleet Plus card, where members can opt specifically for a Learjet 60 or Bombardier Challenger 300. With a 12-hour advance reservation, your aircraft is available at any of 5,000 airports in the U.S. Customers appreciate the simplicity and the short term, says Skyjet General Manager Alexandre Monnier. "You buy it, you fly it and that's the end of the transaction."

Skyjet aircraft can also fly to Hawaii, the Caribbean or Mexico, and new Premie Fleet benefits enable members to fly to o from Europe or convert North America flight-hours to European flight-hours an fly between 25 European countries In addition, Skyjet offers a dedicate customer service representative — Personal Concierge — as a single point o contact who tracks your flight and look after your every need. Another Skyje exclusive is that card purchases qualify fo credits toward Bombardier Flexjet or out right private jet ownership.



FLIGHT LOG
Regency Systems Inc.

When Michael Bernal, chief executiv officer of Regency Systems Inc. (RSI) founded his Dayton, Ohio information technology an computer services business, h realized that to be successful he'd have to maximize the effi ciency of his people and thei time. Although RSI is a smal 140-employee company wit revenues of $15 million, i has clients, facilities and staf dispersed across the nation often in hard-to-reach places lik Rochester, N.Y., Huntsville Ala., and Anadarko, Okla.

Commercially, getting almos anywhere from Dayton was problem and typically consume a day or more, points out Bernal. "We watc our finances carefully," he says, but, "the cos in time, of doing business in other places go to be very painful." With a small staff alread multitasking, Bernal knew an effectiv business travel solution was a top priority, s he turned to Bombardier Skyjet and joine the Premier Fleet Jet Card program. It was jus the ticket.

> "NOW I HAVE MUCH MORE TIME TO DEVELOP MY BUSINESS AND STILL PROVIDE QUALITY SUPPORT TO MY EXISTING CLIENTS."
>
> **Michael Bernal, Chief Executive Officer, Regency Systems Inc.**

Bernal purchased 50 flight-hours in the mall-jet category. "It took care of all my eeds," he says, but "I use this very sparing-y." If only two are traveling, he may opt for commercial schedule, but with more board, the jet pays for itself. On a recent rip, five RSI managers jetted out in the horning, conducted several important neetings and flew back that evening. "On he flight home, we assessed everything that appened, had dinner on the plane and were ack at work the next day," Bernal says. That was efficiency beyond reproach."

Bernal shied away from fractional owner-hip because of the long commitment and ecessarily large capital investment. On the ther hand, traditional, on-demand charter as inconsistent, but with Skyjet, he acquired he best of both, including safety, quality and ervice, plus guaranteed availability. "One call nd everything is taken care of," he says. Now I have much more time to develop my usiness and still provide quality support to ny existing clients." ✈

THE HOTTEST TREND IN GAINING BUSINESS AIRCRAFT BENEFITS ARE CARD PROGRAMS, WHICH UNIQUELY COMBINE CHARTER AND FRACTIONAL OWNERSHIP ADVANTAGES INTO A NEAT PACKAGE.

Membership Cards: Jet Aviation

Jet Aviation, which provides global aircraft management and charter services from 65 worldwide locations, recently launched its Privileged Travel program. The Jet Aviation plan is structured a little differently from most in that it offers three aircraft classifications based on range, capability and aircraft age, rather than cabin size alone. The Classic program provides slightly older, lower-cost, short-range aircraft. The Elegance program includes midsize aircraft with transcontinental range, and the top-of-the-line, Avant-Garde program includes late-model, large-cabin, intercontinental-range jets. In addition, Privileged Travel cards can be uniquely purchased in denominations of as few as 10 hours as well as traditional 25- and 100-hour blocks. Rates are based on one-way travel, although 25- and 100-hour card members receive a 40% discount on hourly rates for same-day and overnight round-trips (the latter on flights of two hours or more) if the passenger departs from and returns to the aircraft's dispatch point.

Membership Cards: Sentient Jet

With the Sentient program, backed by T. H. Lee/Prudential, one buys a Private Jet Membership that comes with complete liquidity and no expiration limit. Jet cards for $100,000 or $250,000 are available in either of two classes of aircraft — the standard group comprised of slightly older airplanes and the

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preferred group of newer models at slightly higher prices. Within each group, fixed pricing with guaranteed availability is applied to small-, midsize- and large-cabin aircraft. One-way pricing applies with a reduction on a round-trip basis.

Sentient Chief Executive Officer Steve Hankin emphasizes the highest levels of safety. Aircraft are provided by a select group of the nation's premier charter providers that must meet stringent safety requirements and be top-rated and approved by ARG/US or Wyvern. Each operator and airplane is also screened by a Sentient team, and Sentient makes a final safety check prior to each departure.

FLIGHT LOG
The Ferguson Firm

Beaumont, Tex.-based attorney Tim Ferguson, a senior partner in the Ferguson Firm, previously owned several business jets, but he prefers the flexibility and simplicity of his Sentient Private Jet Membership program. "The advantage is that Sentient has a complete fleet of aircraft that I can use, and I don't have to pay for full-time staff pilots as I have had to historically," Ferguson says.

"In the legal business, while cost is an important factor, it is often more important to be someplace at a specific time," he says, "and you often have to travel on a few hours' notice." He wanted the assurance that he could request the type of aircraft that he wanted whenever he needed it and that it would be operated to the highest safety standards. Sentient Jet's travel card program provided all of that and more.

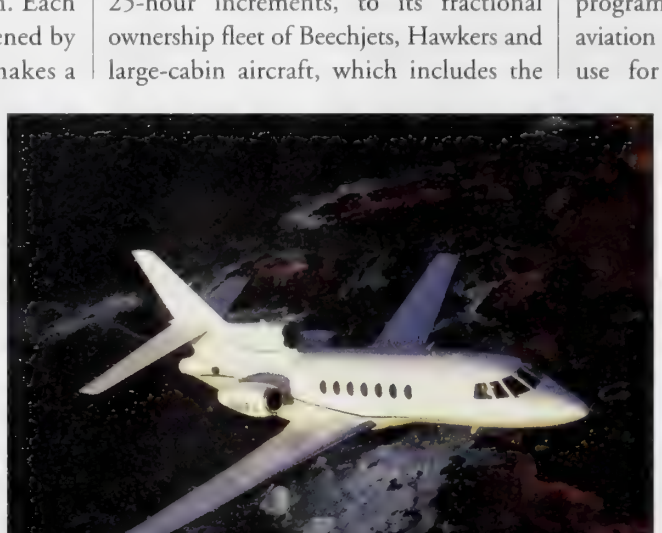
With the Sentient Private Jet Membership program, there is no time limit on the card and you can go one-way and return whatever you want to, he says. "That's a big advantage."

Ferguson regularly travels to and from rural areas across the state and around the nation that lack convenient, frequent airline service. Now, he says, "I can use a Sentient jet to go anywhere. That's unmatched flexibility."

Private air travel is by no means inexpensive, but the firm's verdict is that it's coming out well ahead. "If you consider our hourly attorney's fees and what that value is in comparison to the time that we save, we calculate that we save in a six-figure range," says Ferguson. ✈

Membership Cards: Flight Options

Flight Options recently introduced its JetPass travel card, providing access, in 25-hour increments, to its fractional ownership fleet of Beechjets, Hawkers and large-cabin aircraft, which includes the Embraer Legacy. JetPass, which is designed specifically for those who need fewer than 50 hours of flight time per year, is fully refundable and has no expiration limit. Flight Options Chief Operating Officer Michael Scheeringa reports that card interest is particularly strong among former fractional owners who are scaling back their flight time, as well as organizations that operate their own corporate aircraft fleets but occasionally need a supplement at peak demand times or need to access another class of aircraft for specific mission It is particularly advantageous for thos interested in a trial-size introduction t fractional ownership, he points out.



> "IF YOU CONSIDER OUR HOURLY ATTORNEY'S FEES AND WHAT THAT VALUE IS IN COMPARISON TO THE TIME THAT WE SAVE [IN A BUSINESS AIRCRAFT] . . . WE SAVE IN A SIX-FIGURE RANGE."
>
> Tim Ferguson, Senior Partner, The Ferguson Firm

Membership Cards: CitationShares

CitationShares' newly launched Vecto JetCard program slices fractional ownershi benefits into 25-hour, prepaid, single-price portions, using its fleet of small- and mid size-cabin Cessnas. The Vector JetCard among the most competitively priced car programs in the industry. As in other car programs, those who come into busine aviation through this route often find mor use for an aircraft than anticipated CitationShares Chief Executiv Officer Steve O'Neill says th average 25-hour card user run through his or her hours in fiv to seven months.

FLIGHT LOG
ASG Software Solutions

Six years ago, with first-yea sales approaching $25 million high-tech start-up, Naple Fla.-based ASG Softwar Solutions embarked on a ambitious growth strategy c internal development and acquisition The company, a leading developer c enterprise software, had a major obstacl to surmount: ASG needed fast, efficien air travel.

For any company on the move, trave ing commercially was far too restrictive, s ASG Founder, President and Chie Executive Officer Arthur Allen purchase NetJets shares in small-cabin Cessna jet and the larger Dassault Falcon 2000. Th fractional shares made perfect sense. Th

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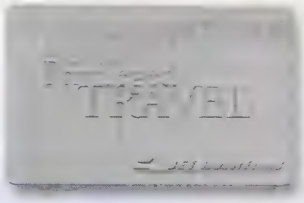

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The Enlightened Business Traveler

growth strategy succeeded. Then new business opportunities increasingly drew Allen and his team overseas. He needed an additional solution.

ASG began chartering a Gulfstream G-V for long-range, global flights, which frequently took Allen and six top managers around the world on monthlong sales marathons. After one globe-trotting tour, stopping in eight countries throughout the Pacific Rim and South Africa, he evaluated the results. "That trip alone generated over $40 million in sales opportunities," says Allen, emphasizing that the travel cost was merely a minor blip in the revenue stream.

Generating Global Business at 500mph

With global travel hours finally topping 400, Allen determined that his own plane made the most sense and ordered the latest Gulfstream G550. The jet will provide him with distinct areas for working and relaxing, seating that converts into six comfortable beds and a nonstop global reach of 7,700 statute miles — the distance between Naples, Fla., and Beijing. Despite its size and capability, Allen says that the Gulfstream gives him the ability to land at smaller airfields with relatively short runways, and its new-generation avionics allow safe negotiation of some of the world's more challenging airports, particularly in poor weather.

In addition to the global Gulfstream, ASG will continue to integrate the NetJets Falcon 2000 into its complex travel matrix, which makes the most sense for moving his people between ASG's many domestic offices. The Falcon also provides a formidable tool for bringing customers to facilities around the country instead of taking the Gulfstream on empty-leg flights to and from ASG's Florida base.

On international trips, the Gulfstream serves an equally important, but often underutilized, function on the ground, Allen points out. "I frequently have customers come out to the plane so we can have lunch and conduct business on board," he says. With satellite communications and a fully equipped galley, the spacious cabin is a comfortable, private, secure mobile office suite.

Allen's key ingredient to success is face-to-face contact. "When you're a global company, you still have to act like a local company," he says. "You have to be out there with your customers and find out what's going on in the industry — it's amazing what that really does.

"If you use these airplanes as real business tools, they are very, very effective," emphasizes Allen. "It changed not only the way we do business — it changed the size of our company dramatically." Today ASG has 58 global offices, 7,000 global customers and sales topping $200 million. "We could never have done this without the aircraft," he says. "We would probably still be a $35 million company."

A LOOK TOWARD THE FUTURE

The vitality of business aviation will continue to grow, with more capable and efficient aircraft, new communication devices that enhance airborne productivity and new ways to gain affordable access that vastly expand the customer base.

The Teal Group, an aerospace and defense market analysis firm based in Fair fax, Va., forecasts business jet sales of 6,41 aircraft over the next decade, about 40% o which will be in the high-end, long-rang market. According to Teal Group analys Richard L. Aboulafia, this explosive growt is fueled by consumer backlash to depreci ating airline service combined wit increased personal wealth, lower financia barriers to entry (including fractional own ership and membership card programs) and new, more affordable jets. In addition new technology is bringing enormou capability to the cabin as well a unprecedented sophistication t the flight deck, delivering safet enhancements barely possible decade ago and far more advance than new-generation airliners.

When the legendary Al Ueltsch founded FlightSafety Interna tional, the world's foremost busi ness aircraft training organiza tion, he emphatically stated tha the most important safety devic in the cockpit is a well-traine pilot. That's a proven fact. Safet statistics compiled by Robert E Breiling Associates show tha company-flown, jet-powered ai craft with professionally trained fligh crews have a safety record that surpasse those of airlines for the past nine years.

Revolutionary Developments in The Cockpit and Cabin

In the cockpit, terrain and traffic avoid ance, satellite guidance and high-definitio digital avionics including synthetic visio systems are some of the latest technologie to improve safety. Gulfstream's Enhance Vision System and military-style, heads-u display, for example, enables pilots to loo ahead and "see" terrain and runway detai in zero visibility and at night.

> "WE COULD NEVER HAVE DONE THIS WITHOUT THE AIRCRAFT. WE WOULD PROBABLY STILL BE A $35 MILLION COMPANY."
>
> Arthur Allen, Founder, President & Chief Executive Officer, ASG Software Solutions

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Inside tomorrow's aircraft, new communication devices and avionics equipment will make travel time more productive than ever. We've already crossed the last frontier of functionality as wireless broadband connectivity is appearing in business jet cabins. Rockwell Collins introduced significant enhancements to its popular Airshow moving map and cabin display system, bringing real-time, text-based news, weather, sports and stock data via high-speed connections; live TV; and other advances to the business aircraft cabin. "I know some people who are doing day trading on their airplanes, and that's about as real time as you can get," says Tim Rayl, Rockwell-Collins's senior director for cabin electronics. "People are using the aircraft cabin for real hard-core business purposes, to work collaboratively with their folks on the ground, sharing presentations, passing spreadsheets back and forth — things that just weren't possible before."

Honeywell has some new products of its own that are expanding the envelope for conducting business aloft, including cabin networks and high-speed data communication, not to mention satellite phones and fax, that make it possible to communicate at 500 miles per hour from any place on the planet.

THE VITALITY OF BUSINESS AVIATION WILL CONTINUE TO GROW, WITH MORE CAPABLE AND EFFICIENT AIRCRAFT, NEW COMMUNICATION DEVICES THAT ENHANCE AIRBORNE PRODUCTIVITY AND NEW WAYS TO GAIN AFFORDABLE ACCESS.

"We are making a transparent transition from the office to the aircraft cabin," says Eric Olson of Honeywell's cabin management systems division, referring to his company's latest developments that will make Web surfing practical at DSL broadband speeds.

Among new-technology aircraft development is the large-cabin, long-range Dassault Falcon 7X tri-jet, which will be the first computer-controlled, fly-by-wire business jet using advanced technologies previously found only in military fighters and latest-generation airliners.

A New Airplane Category Sparks the Imagination

Meanwhile, an entire new class of aircraft called VLJs (Very Light Jets) are in development, some with projected prices starting close to $1 million and delivery dates within the next two years. These include the Eclipse 500, the Adam A700, the Diamond D-jet and the Cessna Citation Mustang. Other names are entering the competition such as Honda, which recently announced its intention to develop a lightweight jet engine with leading engine manufacturer General Electric.

These new VLJs sparked the imagination of Donald Burr, who revolutionized commercial air travel two decades ago when he founded People Express. Burr sees these small business jets transforming the transportation system of tomorrow. Now he's teamed up with Robert Crandall, former American Airlines chief executive officer, to create what he calls "the next big thing:" an air limousine service named Pogo that will use new, small je like the Adam A700 to bring private-travel to the masses.

"We're going to return access to t American traveling public that they do know exists," promises Burr, "and tha going to enable them to travel in a way th they never even hoped to travel." Based what we are seeing, Burr's forecast appl in many more ways than even he hims imagined.

Written and produced by
Mark Patiky
Beehive Communications Inc.
mpatiky@bellsouth.net
Associate writer:
James Wynbrandt
Principal photography:
Paul Bowen
Editor: Wesley Nam

For further information contac

NBAA (National Business Aviation Association), Washington, D.C. 202-783-9000, www.nbaa.org

GAMA (General Aviation Manufacturers Association), Washington, D.C. 202-393-1500, www.gama.aero

NATA (National Air Transportation Association), Alexandria, Va., 800-808-6282, www.nata-online.org

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When the Silk Road Gets Paved

Coming soon: the Chinese version of the Interstate Highway System. Next: yet more cheap manufactured goods. Yikes! | BY ROBYN MEREDITH

WHEN INTEL ANNOUNCED IT WOULD BUILD A $200 million factory in Chengdu, China, it set off a race to the atlases. Chengdu—just one of China's 38 cities of more than a million people—is bigger than New York City. Companies doing business in China had better stock up on road maps. In the past it was good enough to know where to find Shanghai, Beijing and maybe Guangzhou (formerly Canton). But China is busy building what resembles America's Interstate Highway System, and that is opening huge swaths of the country—including once-isolated places like Chengdu—to trade.

"Three-quarters of China is off the beaten track—that's a billion people," says Intel Chief Executive Craig Barrett. "Opening that vast territory and vast population to economic development is a good drawing card." Although Intel does most of

Capitalist roaders: Expressway serves Chengdu but not, as yet, many motorists; an elevated highway is headed for a Shanghai suburb.

its shipping of chips by air, machinery and raw materials can come by road. Also the new accessibility of Chengdu means Intel can tap engineering talent from the city's 19 universities, all while paying its 600 workers there around a third of what it pays in its other Chinese factory in Shanghai.

In 1989 China had lots of bicycles and only 168 miles of expressways. By the end of last year—a year during which China spent $42 billion building roads—it had 18,500 miles of expressways, and the plan is to reach 51,000 by 2008, according to the Ministry of Communications. That would top America's 46,500 miles of interstates. Roads are being laid so quickly that China used 40% of the world's cement (part of the mix) last year.

The Federal-Aid Highway Act of 1956 that gave rise to the U.S. interstates transformed America, bringing markets together, creating a national clientele for roadside food, fuel and lodging franchises and lowering shipping costs for factories located away from rail and barge lines. Highway building will do no less in China. The new freeways have cut the Beijing-to-Hong Kong trucking time from 55 hours to 25, says UPS China, Shanghai to Beijing from 31 hours to 14. Better roads mean that factories like Intel's can be built in parts of China, like Chengdu, where labor and real estate are cheaper. Driving times from inland factories to ports will be cut dramatically.

This is not all bad news for the U.S. labor market. It will be all the easier for KFC and Procter & Gamble to ship into the interior—and to find buyers at the other end of the road with cash in their pockets. Prada just opened new stores in Chengdu as well as in Xi'an and Dalian to bring its total to eight stores serving mainland China's nouveaux riches. Because DHL has been able to shave a couple of days off the trucking time from a Beijing warehouse to various Chinese markets, one fast-moving U.S. consumer goods client is saving $1.2 million a month by keeping only five weeks of inventory instead of eight.

The new highways are transforming the lives of ordinary Chinese, too. At a rest stop south of Beijing, Carl Walter, China chief operating officer for J.P. Morgan Chase, came across a smelly 10-ton truck with hundreds of chickens in the back. The driver—a communal farmer from Jilin Province, in the north—had made a pit stop on the three-day cross-country drive to Guangzhou, a city of 6.7 million. "She's arbitraging chicken between Manchuria and Guangzhou," says Walter. "That's not much different from going from Bangor to Orlando, and those guys way up there know they can get a better price for their chicken."

Before you site your next Asian chip mill in the hinterlands, though, consider the downside. Bruce Murray, China country director of the Asian Development Bank, which lent $4.8 billion through last year helping China lay pavement, says, "Infrastructure is a necessary condition, but it is not a sufficient condition." It is one thing to be served

"She's arbitraging chicken between Manchuria and Guangzhou. That's not much different from Bangor to Orlando."

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Defending Your Network

Systems That Prevent Intrusion Take the Guesswork Out of Network Protection

THE FIRST SIGNS OF AN APPROACHING INTRUDER BEGAN TO EMERGE IN THE SECOND week of April. Minute changes in network activity alerted the security force that something suspicious was going on. A few cleverly concocted lines of code, later to be known as the Sasser worm, one of the most destructive cyber-attacks ever turned loose, were roaming the network, sniffing around for vulnerabilities.

EARLY WARNING

By analyzing the network anomalies, AT&T's security engineers at the Global Network Operations Center (GNOC) in Bedminster, N.J., were able to calculate the worm's developmental path and mode of assault. And as it continued to scope out its targets and adjust its destructive methods, the security team was already implementing protective measures. When Sasser finally hit with full force two weeks later, paralyzing thousands of corporate networks and taking their administrators by surprise, business customers served by AT&T had protections in place.

While these companies were fortunate to have been alerted in time, thousands of other companies came to the realization that establishing firewalls, installing anti-virus software and hiring someone to keep track of known vulnerabilities simply isn't enough anymore.

New worms, viruses and other malicious attacks are unleashed every day. And the hackers launching them are no longer just stereotypical high-school kids; they're also highly skilled organizations determined to find new ways to manipulate and cripple vulnerable networks.

"The number and sophistication of cyber-attacks h grown rapidly during the last few years and will continue to so," says Stan Quintana, vice president of managed security AT&T. "It's no longer just a series of individual attacks, bu full-fledged war being waged on Internet Protocol networ throughout the world. This is a war that can cripple corpora infrastructures the moment the guard is down."

In today's climate, customers cannot afford or toler downtime. However, too many businesses are still relying reactive measures for protecting their networks instead o proactive strategy.

"Being prepared today doesn't mean keeping up w those attacking your network; it means being several ste ahead of them," adds Quintana.

GETTING AHEAD OF VULNERABILITIES

While firewalls remain an important part of any secu strategy, reliance on static parameters and the need to op up "holes" in your trusted applications and servers ma additional security solutions necessary. With client and ser software notoriously prone to vulnerabilities, bypassing a fi

"Being prepared today doesn't mean keeping up with those attacking your network; it means being several steps ahead of them."

— Stan Quintana, Vice President of Managed Security, AT&T

"In order to defend against an increasingly complex intruder, we must anticipate every conceivable threat and be at the ready 24 hours a day. We've cast a very wide net, and it's working."

— Edward G. Amoroso, Chief Information Security Officer, AT&T

sn't exactly rocket science for the committed hacker.

The discovery of a new vulnerability leads to a fierce, stakes contest between the defenders and the attackers. ou be able to shutter the loophole before someone exploits w many intruders will manage to sneak through before it's d? Depending on answers to these questions and more, enterprises are considering leveraging the skills of network e providers.

A good security partner will work with a company to proac- analyze potential vulnerabilities, anticipate the most likely of intrusions and develop a game plan to minimize the es of any attack or the impacts of those that occur.

According to Edward Amoroso, chief information security at AT&T, it's more important than ever for security strate- o address the network holistically. "In order to defend st an increasingly complex intruder," says Amoroso, "we anticipate every conceivable threat and be at the ready 24 a day. We've cast a very wide net, and it's working."

Support for such a holistic, proactive approach comes in rm of advanced intrusion prevention systems, like AT&T et Protect, a security detection and notification service that businesses real-time alerts on potential attacks still in the lation stage. Cybersecurity services such as these are part ew group of emerging network technologies that are quick- oming a part of the mainstream.

ACTIVE SOLUTIONS

o achieve this preemptive protection, sensors are placed tegic points in the network to monitor data streams for ous code. Using a variety of algorithms and detection ods to analyze network traffic, these sensors detect alies before they become a threat. This transforms the rk into a proactive first line of defense, working around the to deliver strong protection.

he network sensors are fine-tuned to individual require- , ensuring proper detection levels while reducing unnec- warnings. In addition, good security providers ensure that cious data patterns are analyzed by experts before a ng is issued, adding a human filter to shield network ors from nerve-racking false alarms.

his strategy can increase early-warning capabilities even when the scope of traffic monitoring is extended beyond the corporate network. AT&T, for example, operates one of the largest IP networks in the world, routing approximately 1.4 petabytes of IP traffic daily. This gives its security force a unique perspective on the world's data streams, enabling it to analyze huge amounts of traffic, in real time, to predict and profile malicious activity.

"The best defense does not just mean the best technology," says Amoroso, "but a team of highly specialized human experts, whose watchful eyes can spot and analyze in real time every bit of unusual activity in the data stream."

A solid intrusion prevention system goes beyond gathering intelligence and stimulating alerts in times of danger. The provider guarding your network should not only ensure that you are warned, reaching you wherever you are via any device, but also offer hands-on help and make available every protective device to keep your company safe.

"The job of complete network protection is becoming so complex these days that an increasing number of companies are turning to outside security experts," says Amoroso.

Leaving network security in the hands of security experts can also be the right strategy for the bottom line. Businesses need a network security solution that is flexible, robust and easily managed to offer in-depth protection with minimal impact on internal resources. In addition, a service provider offers businesses maximum flexibility and scalability, while cutting costs and freeing resources to be deployed elsewhere.

Not surprisingly, nearly half of the companies responding to a recent survey by the Partnership for Public Warning and AT&T have already turned to a service provider for help with their security strategies.

"Fortunately, businesses have a better chance now of warding off attacks," says Amoroso, "thanks to major new enhancements to the technologies."

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dishes of slithery fish stomachs at a formal Chinese banquet, as might happen in Shanghai or Beijing. But it is quite another for Western executives to be expected to host affairs with such delicacies for a dozen government officials in the middle of nowhere—and to add to their expense accounts the customary parties afterward with two dozen karaoke-singing hookers. Try explaining that roughly $4,000-a-night expense to niggling accountants back at headquarters.

Diplomats and business executives across China say foreign companies are expected to ante up for rather more wholesome ends, too, like sending the children of party officials to college in the West. As the nearest deep pockets, Westerners are often called on for other favors, like paying for officials' junkets to the U.S. or Europe or buying expensive holiday gifts.

It now takes only 17 hours instead of 37 for goods to reach Shanghai from Chongqing, which before the Communist takeover in 1949 was for a while the headquarters of the Nationalist Chinese government and Chiang Kai-shek's chief of staff, American General "Vinegar Joe" Stilwell. Chongqing is China's largest city, with 15 million people in a county of 30 million—nearly as many as reside in all of Canada. More than 60 years after Stilwell and General Claire Chennault's Flying Tigers helped China fight the Japanese, capitalism has moved back in: Ford Motor, Cummins Engine and Briggs & Stratton have factories in Chongqing. Engineers there earn just $240 a month, versus $665 in Shanghai.

But if Chongqing is a paradise of low costs, it is of the postapocalyptic sort. Sunlight filtering through the layer of eye-stinging pollution reveals the grayish outlines of skyscrapers just down the street. Sinewy men using sledgehammers that weigh nearly as much as they do spend their days cracking concrete at downtown building sites. Traffic crawls. Locals still look twice when they see Westerners. Scrawny "bong-bong" men wait on downtown corners with long bamboo poles, eager to carry groceries, bricks, anything for

Connected: China's Big Cities

China spent $42 billion last year as part of a drive ultimately to build 51,000 miles of highway by 2008. Some major routes and travel times are shown below.

Population figures include metro areas.
Sources: TravelChinaGuide.com; CIA World Factbook.

ROUTES	CURRENT TRAVEL TIME	PREVIOUS TRAVEL TIME
Beijing - Hong Kong	25 hours	55 hours
Dalian - Shanghai	25	55
Chongqing- Shanghai	17	37
Shanghai - Beijing	14	31
Shenyang - Beijing	7	16
Chengdu - Chongqing	4	9

Source: UPS.

60-cents-an-hour work.

It can be tough to persuade expatriate managers to live there. In Shanghai and Beijing there are housing complexes that cater to Westerners and private schools for their children. By contrast, most Western executives and diplomats in Chongqing live in hotels downtown—the Marriott, Hilton and Holiday Inn all rent serviced apartments to expats.

That may change in the new era of road travel and global links. But the roads that bring more car sales bring more smog. And road safety is in its infancy. New highways are often a terrifying mix of vehicles: carts drawn by oxen, speeding luxury cars with inexperienced drivers, enormous trucks and the occasional bicycle. There is one road accident death every five minutes in China, according to the Asian Development Bank, a stunning figure for a country that Autelligence says has just 7.4 million cars on the road. That compares with one traffic death every 12 minutes in the U.S., which has 230 million cars and trucks on the road.

Some of the new highways are toll roads. Often, when freshly built, they stay virtually empty—until fees drop. Patrick Horgan, chief representative of public affairs consultancy Apco Worldwide in Beijing, remembers one road outside Beijing that "was like driving on a runway" until early this year when the government scrapped the toll. Now it has rush-hour traffic snarls. Welcome to freeway life, China. F

Best Places in China for Business

Private-sector pollen: Hangzhou's West Lake, a 90-minute drive from Shanghai.

Weekend Resort (Pop. 6 Million)

Lauded for its beauty by Marco Polo, Hangzhou remains one of China's top tourist attractions. Its West Lake and green hills beckon stressed-out executives from nearby Shanghai looking to spend an easy weekend. The historic city has the added distinction of being the best business location in China, according to a survey published in the September edition of FORBES CHINA, the Chinese-language edition of FORBES magazine.

The FORBES CHINA ranking of 100 cities is loosely based on formulas used in the Best Places for Business and Careers survey of the U.S. magazine (FORBES, *May 24*). In determining China's best business addresses, it takes into account market size, the percentage of the work force with a college degree, the cost of doing business and transportation infrastructure. Reflecting the growing importance of entrepreneurism in China's reforming economy, the list also factors in a city's success in attracting new investment from private companies.

Hangzhou (pop. 6 million) scored big in that area. It's in booming Zhejiang Province, a mecca for China's fast-growing private sector. Among the members of our most recent list of China's richest people who call Hangzhou home is Lu Guanqiu, number four. Lu's business ventures aren't only in China. In the U.S. Lu's Wanxiang Group makes auto parts in Illinois and owns a minority stake in Nasdaq-listed Universal Automotive Industries.

In an era when foreign investment has been pouring into China (direct foreign investment, $53 billion last year, rose 15% in the first seven months of 2004), Hangzhou has been getting its share of overseas money. Among the foreign businesses with investments in the city are United Technologies' Otis Elevator, and Siemens, Motorola and Mary Kay. Hong Kong's Vincent Lo, developer of Shanghai's swank Xintiandi bar and restaurant district, has a similar area on West Lake.

The runners-up in the top ten cities on the FORBES CHINA list: Ningbo, Dalian, Shanghai, Wenzhou, Beijing, Suzhou, Wuxi, Shaoxing and Shenzhen. —*Russell Flannery*

September 2004

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Last Call

As the Chicago Board of Trade goes electronic, one floor veteran refuses to hedge his future | BY EMILY LAMBERT

AT 7:19 A.M AT THE CHICAGO BOARD OF Trade Harold Lavender is saying his good mornings. Each day Lavender, 57, wears the same purple jacket with red lapels to help clients pick him out of the crowd as he trades contracts for ten-year Treasury note futures. When the bell rings at 7:20, he's ready to spring into action.

If only there were orders to fill.

This is Lavender's 28th year in Chicago's trading pits, which means he has been yelling and flashing signals here for one-sixth of the exchange's colorful history. He began in 1976 as a clerk and runner making $125 a week. Now he is a floor broker, whose job is to execute trades for buyers and sellers—hedgers and speculators betting on interest rates. What kind of money can you make doing this? Until several years ago, it wasn't unusual for a floor broker to pull in $1 million a year.

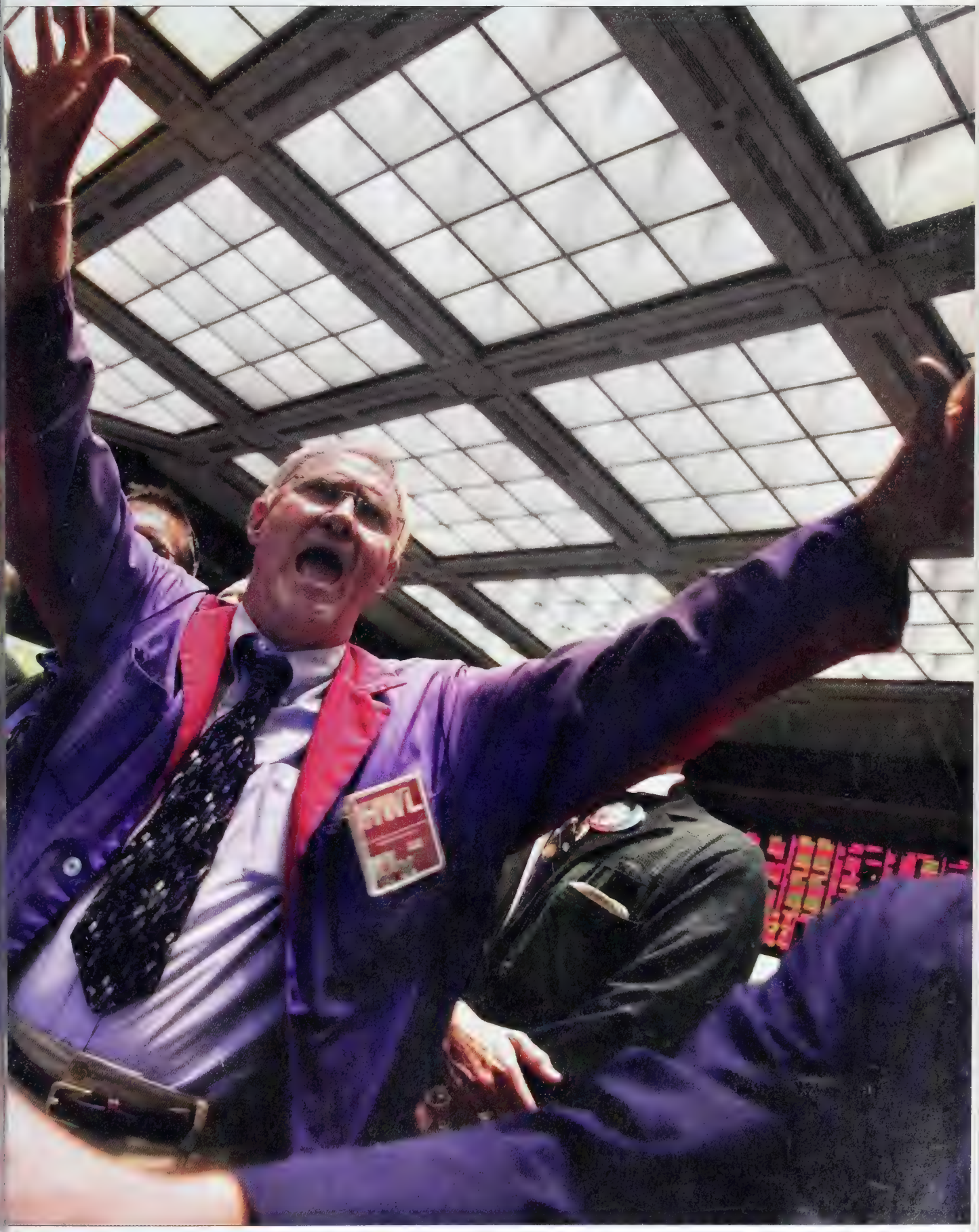
Lavender is unlikely to come close this year. In superficial ways, little has changed inside the 60,000-square-foot financial room in CBOT's art deco building. Its five-story walls are still lined with screens blinking with market information and news. In risers surrounding the 12 mostly octagonal pits are the floor operations of Bear Stearns, Credit Suisse First Boston and their ilk. CNBC reporter Rick Santelli regularly broadcasts from the ten-year pit, and there's still a paramedic on hand to treat overheated traders. But, as electronic trading has sapped business from the trading floor, many desks are unmanned and traders have left to conduct business "upstairs"—on a computer.

Watching his colleagues leave, Lavender has become an even louder and more passionate defender of the chaotic open outcry system that defined securities trading around the world for most of the past two centuries. Now floor trading is becoming something akin to the home delivery of milk. For the first half of the year, volume in the financial futures pits fell 11%, while that of electronic trades surged 50%, year over year. Lavender is a Luddite for all seasons. "The best computer ever made is right here," he says, tapping his head. "I plan to be on the floor ten years from now."

For decades the process has worked something like this: A floor manager at a booth relays an order to a floor broker. The broker yells out the order, finds a buyer or seller, makes a trade, records it on a card and hands it off to a clerk. If the market is primed, the time from call to execution can be three or four seconds, says Lavender. In some pits a broker can still earn $1 or more per contract for his services. (The going rate on the financial floor is down to 50 cents to 80 cents.)

In electronic trading there are no elbows, no yells and no brokers pacing the floor. A trader—whether a speculator or someone at a bank, insurance company or brokerage house—sits at a computer and clicks in an order, or runs an algorithm that enters orders automatically. When an electronic order has a match, the trade takes two-tenths of a second or less to complete. Instead of putting on platform shoes to gain an edge (which

A lone cry: One of a dying breed, Harold Lavender still relies on yelling and flashing signals.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An expense ratio represents the annual percentage of the fund's assets paid out in expenses. The comparison is based on the following funds: Fidelity Spartan 500 Index Fund versus Vanguard 500 Index Fund; Fidelity Spartan Total Market Index Fund versus Vanguard Total Stock Market Index Fund; Fidelity Spartan Extended Market Index Fund versus Vanguard Extended Market Index Fund; Fidelity Spartan International Index Fund versus Vanguard Developed Markets Index Fund. You can view the prospectuses for all of these funds (except the Vanguard Developed Markets Index Fund) on Fidelity.com. While the investment objectives for each compared Fidelity and Vanguard fund are substantially the same, there are other differences between funds, including investment minimums and fees that you should be aware of and should consider carefully before investing. The Vanguard funds generally have two share classes: Investor and Admiral and the comparisons are based on Investor Shares, which we believe to be most comparable to the listed Fidelity Funds.

You must also consider that the Fidelity Spartan Index Funds currently have expense ratios at 10 basis points because the fund's investment advisor has agreed, voluntarily and indefinitely, to reimburse the funds to the extent that annual expenses exceed 10 basis points. Absent such reimbursement, fund expenses could be higher. This arrangement may be discontinued at any time. All things being equal, a fund with lower expenses may offer higher returns than a fund with higher expenses.

The minimum investment requirement for Fidelity Spartan Index Funds is $10,000; for the listed Vanguard Index Funds, it is $3,000. Fidelity Spartan 500 Index Fund and Spartan Total Market Index Fund charge a redemption fee of 0.50%, and Spartan Extended Market Index Fund charges a redemption fee of 0.75% for shares held less than 90 days. Spartan International Index Fund charges a redemption fee of 1.00% for shares held less than 90 days. The Vanguard Developed Markets Index Fund charges a redemption fee of 2% for shares held less than 2 months; the other listed Vanguard funds do not have redemption fees. The listed Fidelity and Vanguard Funds have different inception dates, investment advisors and portfolio managers. While the compared international index funds generally track the MSCI EAFE Index, please note the investment objectives and structures: Fidelity Spartan International Index Fund seeks to provide investment results that correspond to the total return of foreign stock markets; Vanguard Developed Markets Index Fund, a fund of funds, seeks to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in the major markets of Europe and the Pacific region.

The performance (as of 6/30/04) of the compared funds may differ and the performance for the Fidelity Fund versus the Vanguard Fund (1-, 5-, 10-year or life of fund) is as follows: Fidelity Spartan 500 Index Fund/Vanguard 500 Index Fund (18.89/18.91%; -2.33/-2.26%; 11.60/11.75%); Fidelity Spartan Total Market Index/Vanguard Total Stock Market Index Fund (20.81/20.99%; -1.22/-1.01%; 4.59 (life of fund, from 11/97)/11.43%); Fidelity Spartan Extended Market Index Fund/Vanguard Extended Market Index Fund (29.29/29.66%; 2.47/3.13%; 5.14 (life of fund, from 11/97)/11.36%); Fidelity Spartan International Index Fund/Vanguard Developed Markets Index Fund (32.18/32.64%; -0.05/n/a%; 3.62% (life of fund, from 11/97)/-3.02% (life of fund, from 5/00)). Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Life of fund figures are reported as of the commencement date to the period indicated. For the 6/30/04 period, Fidelity reimbursed a portion of the Spartan Index Fund expenses. Absent such reimbursement, returns would have been lower.

The performance data featured represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance data quoted. Please visit Fidelity.com/performance or call Fidelity for most recent month-end performance figures.

1 The Industry Average Expense Ratio, calculated by Fidelity, represents the median total expense ratio of no-load or front-end load index funds that are in the same Morningstar fund categories as each of the Fidelity Spartan Index Funds listed. We excluded certain funds from the calculation if they had a back-end sales load, expenses exceeding 1.50%, and/or initial minimum investments of $250,000 or more. Although Fidelity has reviewed this data for accuracy, it does not guarantee that the information is accurate or complete or that Fidelity retail index funds will continue to have the lowest expense ratios among a comparison universe. Morningstar Data is as of 6/30/04.

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happens in the pits), screen traders invest in modems and T1 lines.

Lavender has been a full-time broker since 1991, and he sticks to tradition. Some brokers use electronic clerks to speed up the process. Lavender, once the head of the Board of Trade's Technology Committee, relies on a computer only occasionally—to endorse a trade, not to make one. All around him, technology has infiltrated the floor. In the ten-year pit, with one exception, all locals—those trading for their own accounts or on behalf of an investment firm—trade using computers. They come to the pit for camaraderie, but many of their trades bypass brokers.

This digital evolution is in its twelfth year—just as the New York Stock Exchange is embarking on its own massive overhaul. Brokers and traders who own the CBOT were suspicious of technology that threatened their jobs, but couldn't stave it off. In 1998 the institution's board voted to allow its biggest volume-getter, 30-year U.S. Treasury futures, to trade electronically alongside open outcry. They had seen electronic exchanges work havoc on floor brokers in Europe, and they didn't want to lose the business. "We made an egregious, grievous mistake," says Lavender, although he was part of that board approval. "We did it the way we did it out of fear."

But many brokers adapted to that fear by following their customers off the floor. Ninety percent of U.S. Treasury futures volume is now electronic, as is 60% of the exchange's overall volume. That has crimped brokers' profits. In response to Eurex—the German-Swiss operation that this year set up a subsidiary a few blocks away—CBOT slashed fees, so that it charges members less to trade financial futures on the screen than on the floor. (Fees, which include exchange fees and brokerage fees, are complex, based on what commodity is traded, whether the trader is an exchange member and which brokerage house is used.) Result: Eurex was routed, but floor brokers were caught in the crossfire. "They were aiming at Eurex," says Lavender, "but they hit the pits."

And their cronyism. There's a history of bringing kids, neighbors and friends into the business; Lavender was tapped by a high school and college buddy. He insists relationships don't interfere with the market and that the pit polices itself well. "The amount of money being what it is, people watch each other," he says. Still, there have been notorious lapses. In 1989 the FBI planted moles here and at the Chicago Mercantile Exchange, nailing traders and brokers for shenanigans like prearranged trades to skim customer profits. Such scams are tougher to pull off in the electronic world, since all trades are anonymous to the parties involved.

The FBI nailed brokers for deals like prearranged trades to skim customer profits.

But even electronic traders have found ways to game the system. One such character trading on the Eurex system, a trader known as the Flipper, occasionally posted an offer to sell a large position in contracts on the Schatz, the two-year EU government bond, at a low price. As sellers panicked and cut their asking prices, the Flipper sometimes pulled his sell order and bought, scoring the contracts at an advantageous price. The manipulation isn't illegal, but it hurts the market by making traders gun-shy.

Pit bulls like Lavender have some accountability, since they still assume execution risk. A simple mistake on 500 contracts can cost $15,000. If Lavender screws up, or if the market ticks away from him on a trade, he must dig into his own pocket to compensate a customer. Moreover, the open-cry system gives brokers and traders a window on what's going on in the market. They can gauge people's expressions, discern the frenzy of hand signals, even overhear price gaps between, say, contracts in the 10-year and the 30-year pits—all of this drama unavailable to screen traders.

The ubiquity of electronic trading will only feed on itself. Traders can operate from anywhere in the world; without the physical constraints of the pit, they're creating a larger, more liquid marketplace. The U.S. futures markets handled 1.2 billion contracts last year, mostly on behalf of institutions and full-time traders. They're also moving, albeit slowly, to a broader retail audience with minicontracts. You could use those to hedge your adjustable-rate mortgage. CBOT and other exchanges will soon get a nudge from tiny HedgeStreet, which will offer "Hedgelets" of $10 and up—contracts to hedge gas prices, mortgage rates and other costs of daily living—starting in October.

For now, open outcry and electronic trading coexist. Locals can trade on the screen and in the pit at the same time. They can also act as arbitrageurs, exploiting differences between the two markets, or use the pits as a way to cancel a trade if the strategy doesn't work. The pit still drives screen volume—20% of electronic trades in financial futures originate in the pits.

How long can the pits survive? CBOT President Bernard Dan, walking a political tightrope, talks up giving customers choice but says "it's difficult to say forever in anything." The electronic model is lethally effective in broadening distribution, driving up volume and eliminating labor. CBOT is trying to steal gold and silver trading from the stodgy New York Mercantile Exchange by listing those contracts electronically. This summer the exchange announced it would electronically list agricultural contracts and futures from two Midwest grain exchanges, in Kansas City, Mo. and Minneapolis—which themselves have inched in a digital direction.

And yet, within CBOT's own pits, trading in ag futures and options still hangs on—one of two such areas—amounting to 16% of the total volume on the exchange. Then again, customers don't have a choice: Electronic trading is limited to off-hours, and competition

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That Other Exchange

Brothers Marc and Scott Federighi represent the new face of the Chicago Mercantile Exchange. Standing in the eurodollar pit, Scott, 40, trades with a handheld device, allowing access to the Merc's electronic exchanges. He also has an office with Marc, 42, where they trade electronically before the U.S. market opens. "We'd rather be here yelling and screaming," says Scott. "But you have to adapt."

The Merc is shoving its brokers and traders away from the open-cry system. The main driver: competition from Euronext.liffe, the all-electronic exchange from the Continent. At stake are trades in eurodollar futures—bets on short-term interest rates affecting American dollar deposits outside U.S.—accounting for 53% of the Merc's overall volume. In January eurodollars were 80% floor-traded; today, only 30%.

Preparing for that move by going public in 2002, the Merc reallocated some of the power held tightly by its traders for more than a century. At the same time, it promised to keep the pits open until trading volume became insignificant, spruced up its electronic trading software, passed out 250 handhelds to traders, opened a computer room so that floor brokers and traders can practice online trading and courted electronic trading groups popping up worldwide.

The pits won't disappear tomorrow. A lease for 70,000 square feet of trading floor space expires in 2005 but can be extended through 2026. Volume there has remained constant—while electronic volume has exploded—making the exchange a perfect place to compare open-cry and electronic platforms. Says Scott Early, a partner specializing in futures and derivatives at Foley & Lardner, a national law firm, "The Merc is the closest thing to a lab experiment." —*E.L.*

From dairy to electronic diary: The Merc began as the Chicago Butter and Egg Board.

hasn't forced the issue.

The other dinosaur den is financial options—the equivalent of the right, for example, to buy Treasury bond futures at a certain strike price—where traders hang over the railings, screaming and waving frantically. Software can't yet replicate all the complex trades used in options strategies, some traders say, though there's plenty of disagreement on this front, so for now these trades remain on the floor. Lavender says he could become an options broker if he wanted to, but that would require learning a new set of skills and strategies akin to mastering electronic trades.

This, too, is changing. CBOT this summer began pushing after-hours trading with online marketmakers. Its bigger and more progressive neighbor, the Chicago Mercantile Exchange, has released a juiced-up options product, part of its accelerated plan to digitize *(see box)*. Lavender's ranks are clearly thinning. The 10-year pit is down from 150 or so brokers and traders as recently as two years ago to 80 or so. Since the feds stopped issuing 30-year bonds in 2001, the 30-year pit has plunged from 600 to 50 people.

Some former pit traders are helping to throttle open outcry. An electronic trading forum held in June played to a standing-room-only crowd. The Board of Trade's online classes draw in people from Chicago to Afghanistan. Harris Brumfield, who once held huge positions in the ten-year pit, left in 1997. He took over a software vendor, and now his company, Trading Technologies, handles more than half the electronic volume at the four biggest derivatives exchanges. Lavender's first boss at CBOT, Ray Cahnman, is now a zealous, outspoken screen trader. Chairman of TransMarket Group, a trading and investment firm, Cahnman says the pits are a financial drain on the exchange. He and Lavender ran for CBOT board seats in 2003. They both lost.

A decade ago the Excelsior on the corner of Wells and Van Buren streets was packed with grain traders knocking back drinks after the markets closed. Today the bar is gone. The crowd at Alcock's has diminished considerably. Recently the owner was on the phone trying to get a wireless connection to enable electronic traders to ply their trade by juggling laptops alongside their beers. Where do the digerati hang out? Gibraltar, jokes John Lothian, head of electronic trading at the Price Group, a brokerage that operates on an upper floor of the CBOT building. That's because the island off the Spanish coast offers low personal income tax rates.

By 10 a.m. on this summer day, without any orders called in for his execution, Lavender passes the time with a crossword puzzle. Later, as visitors look down from the gallery, he reads the comics. He leaves the pit without making a single trade. The volume is low: 24,348 contracts traded in the pit, 442,462 traded on the screen. Lavender shakes his head and writes it off as a seasonal lull. "I've been the one voice willing to say we'll be around for a long time," he says. "And I still believe that." F

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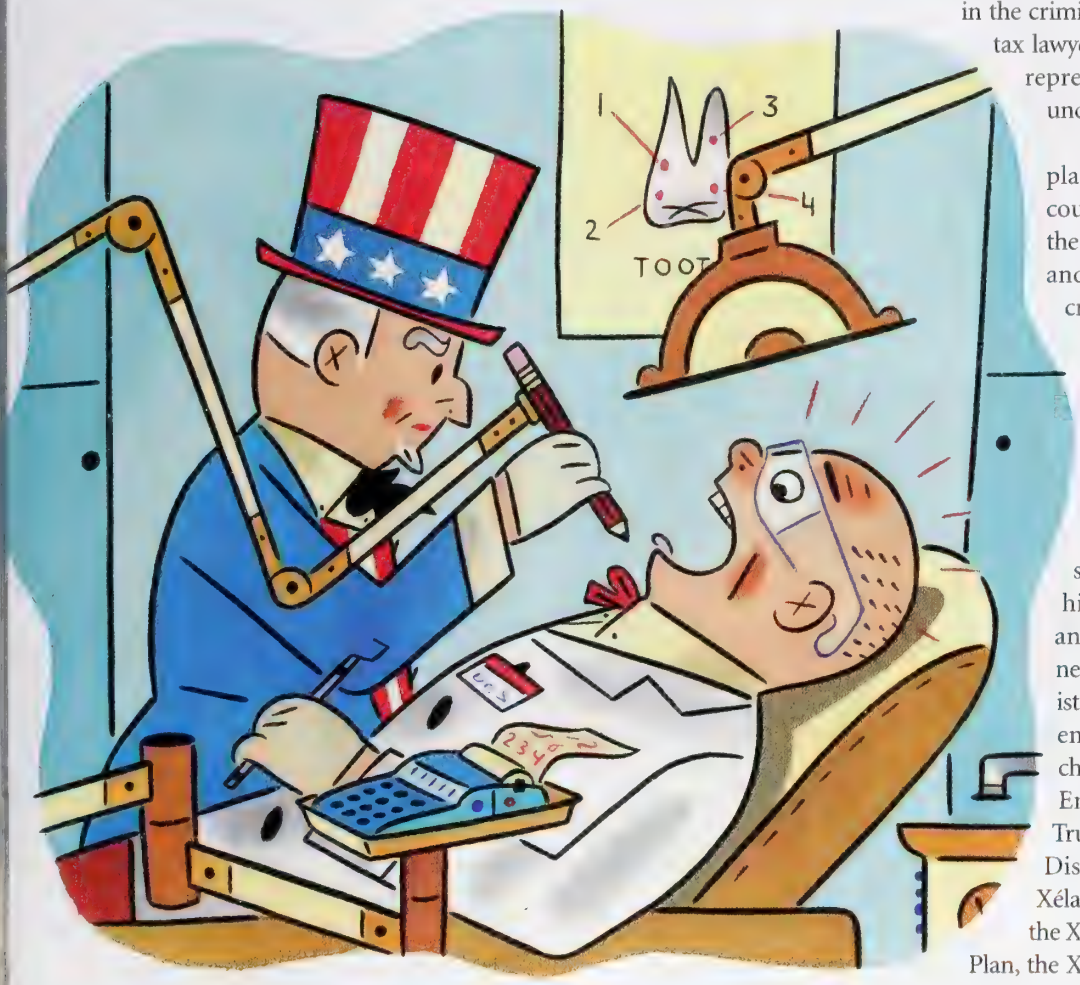
The Doctors' Deductions

Hundreds of doctors and dentists are undergoing a painful IRS exam | BY JANET NOVACK



FOR NEARLY THREE DECADES SAN Diego dentist-turned-insurance-agent L. Donald Guess sold financial planning and products to dentists and doctors nationwide through seminars, medical convention booths, deals with doctors' groups, a "Doctors National Advisory Board" and a network of independent "financial counselors"/insurance agents. Operating with a family of companies known as "Xélan," he offered such routine services as asset allocation and pension administration. But beginning in the mid-1990s he also advised doctors on how they could accumulate the "critical capital mass" needed to maintain their lifestyle in retirement. How? By paying current income taxes only on those earnings they planned to spend immediately and diverting all "surplus" income into a half-dozen "deductible" Xélan savings plans.

Now hundreds of doctors are being audited by the Internal Revenue Service, and the government has summoned records from the Vanguard Group, SEI Investments, AmerUS Life Insurance and Johnson Lambert & Co. CPAs, which would enable it to finger for audit all 2,000-plus docs who participated in one or more of the six programs. Meanwhile, the IRS is investigating whether Xélan has been promoting abusive tax shelters. A federal grand jury in San Diego is also looking into its activities. There's no indication customers are targets in the criminal probe, says Washington tax lawyer Michael C. Durney, who represents 210 of the doctors under audit.

If the IRS decides the Xélan plans violate tax law and the courts agree, it could become the biggest tax mess for doctors and dentists since the shelter craze of the early 1980s, when they loaded up on jojoba bean research partnerships and master music recordings.

The six disputed Xélan programs aren't quite so fanciful. Instead, like some shelters sold recently to other high-income professionals and owners of small businesses, they merely stretch existing tax breaks for insurance, employee benefits and even charity. There's the Xélan 419 Employee Welfare Benefit Trust, the Xélan Supplemental Disability Equity Trust, the Xélan Malpractice Equity Trust, the Xélan Medical Savings Equity Plan, the Xélan Long Term Care Trust and the Xélan Foundation.

Even if Xélan's programs are vindicated—as its lawyers say they should be—the investigation is unpleasant for the doctors under audit. They're being bombarded with document requests by an IRS now determined to crack down on shelters for high earners. Xélan has filed six lawsuits to quash the summons, arguing the IRS doesn't need all the doctors' names to determine whether the programs are abusive. But Seattle tax lawyer John M. Colvin, who

represents Xélan in those suits, admits the odds are against Xélan, given recent government victories in other shelter summons cases.

Meanwhile, some Xélan clients who have nothing to do with the questioned programs are also suffering. In 1998 and 1999 Xélan persuaded 300 docs to buy viaticals—contracts in which terminally ill folks sell the future death benefits from their life insurance policies at a discount. Xélan pitched these as safe investments backed by a surety bond company. Then the viatical company that packaged the contracts went under, the surety company turned out to be a fraud, and the sick people didn't die on cue. So Xélan formed the Viatical Liquidity Liability Co. to buy out the doctors' contracts for $50 million over ten years, agreeing to dedicate 20% of its future commissions to the buyout.

But in June, citing fallout from the investigation, four of the Xélan companies filed for Chapter 11 bankruptcy protection. VLLC filed, too, saying it couldn't make good on its promises to the viatical investors. "I never bought into the tax shelters in the 1980s," laments a retired eye doctor who sank $1 million from his IRA into the Xélan viaticals. "It was a goal of mine to go through life and not fall for a stupid scam and boy, did I fall." He says he trusted Xélan because he had seen it at medical conventions for 25 years.

The first wholesale audits of Xélan doctors began in 2002, after the IRS got (improperly, Xélan claims) a list of hundreds of Xélan Foundation contributors during an audit of the charity. Xélan had told doctors that their tax-deductible contributions to the foundation's "donor advised" funds could be used to pay them for "teaching, research and other pro bono work" at their usual rate and to make education loans to their kids that might be forgiven if the kids did volunteer work. The doctors could even elect to volunteer now and defer payment until they needed extra income in retirement. A 2002 internal IRS memo suggests that doctors shouldn't be allowed deductions for funds that *could* be used for such personal purposes even if they hadn't actually been used that way.

In one of the few individual Xélan audits it has completed, the IRS denied $262,433 in 1998 charitable deductions that North Palm Beach, Fla. neonatologist Setty G. Viralam claimed against his $3 million income and hit him with a 20% penalty. He's fighting the bill in Tax Court. Other audits likely won't be concluded until the IRS develops a consistent position on Xélan deductions, Durney says.

The foundation itself is appealing within the IRS' exam division a recommendation that its charitable exemption be yanked. And it has toned down its act. It has stopped making education loans and is limiting doctors' charitable pay to 60% of their normal rate, Colvin says.

In mid-2003 Xélan ended altogether another one of the disputed programs—its 419 Welfare Benefit Trust, which at its height in 2001 had 773 participants. Xélan told doctors it was terminating the trust because IRS regulations had "changed dramatically." But the government contends in papers filed in court in August that the IRS put taxpayers on notice in 1995 that it would disallow plans "structured like the Xélan 419 Welfare Benefit Trust Program" and in 2000 put such plans on a list of tax shelters subject to special reporting requirements. Colvin insists Xélan's plan, as it was structured, wasn't covered by those notices.

Either way, Xélan encouraged the doctors to stick gobs of pretax money in the plan. Jay Kevin Selznick, a Las Vegas maxillofacial surgeon, says in a lawsuit he filed in May against Guess, Xélan and AmerUS' Indianapolis Life unit that Guess persuaded him in 1999 to cancel his existing life insurance and have his medical corporation put $300,000 a year, pretax, into the Section 419 trust for five years to purchase a $10 million whole life policy from Indianapolis Life. The idea, of course, was to pay big premiums with pretax, instead of aftertax, dollars. Selznick says in his suit that Guess knew (or should have known) the program wouldn't hold up under IRS scrutiny, but instead Guess provided him with a "selectively incomplete" tax opinion blessing it. (Indianapolis Life and Guess deny liability.)

Most doctors are sticking with Xélan's defense of the plan. But Selznick is in an unusual spot: Last year he pleaded guilty to one count of willfully filing a false return, conceding that from 1996 through 1999 he failed to report $940,000 in practice receipts that he had funneled into a personal account. After he repaid the IRS $246,000 and cooperated with IRS criminal investigators looking into Xélan (including taping conversations), he was spared any jail time.

The largest Xélan plan under investigation, with more than $400 million in assets and the most participants, is the supplemental disability plan. Doctors were told that in addition to buying regular disability insurance, their practices could pump—pretax—up to 100% of their excess earnings into a supplemental disability plan offered by the Doctors Benefit Insurance Co., a Barbados insurer owned by several Xélan doctors. After seven years they could get back up to 96% (now 94%) of premiums plus investment gains on those premiums, all of which would then be taxable. The malpractice, long-term-care and medical-expense programs operate in a similar fashion.

The government says it is still investigating whether these plans qualify as insurance or are impermissible deferred compensation schemes. And, if they are insurance, how much of the premiums are properly deductible up front.

Durney, the doctors' lawyer, insists Xélan has strong legal support for these four plans. "We'd like very much for the IRS to review the underlying plans before it assumes they're wrong and subjects all these doctors to very intrusive audits," he says.

Brace yourself, docs. The IRS is not known for its friendly bedside manner. F

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REDSKINS

The $1 Billion Team

Raised on the Redskins, Dan Snyder got a little too emotionally close to the team. To make a successful business out of the team, he had to step back a little.

By Brett Pulley

MY FATHER TAUGHT ME TO LOVE THE Washington Redskins. Every fall we spent Sunday afternoons at the old Robert F. Kennedy Stadium in the nation's capital, idolizing Sonny Jurgensen and Art Monk and other stars of yesteryear. The unofficial mascot, politically incorrect in a full-feathered headdress, would whip up the crowd with a war dance up and down the steep stadium stairs. Today, seven years after my father's death, the four season tickets he first purchased in 1963 are in my hands, and I await the day when my young daughters will accompany me to the games.

Daniel Snyder's father taught him to love the Redskins, too—so much so that he acquired the team and the stadium. People close to him say he grows emotional when he speaks of how his own father worshipped the Skins; Gerald Snyder was a former writer for United Press International and *National Geographic* who died a year ago at age 69. Dan Snyder, 39, is married, with two young daughters and a son. "I had to have a boy to take to football games," he tells his friends.

In college Snyder started a charter travel service and by the age of 19 had earned his first million. He later launched direct-marketing firm Snyder Communications, which approached $1 billion in sales in the 1990s. Then, in 1999, he took on $495 million of debt to pay $750 million to buy the team (and the stadium) of his childhood fantasy, selling his marketing firm a year later for $2.3 billion. Today he has a net worth of $500 million.

Since then he has turned the Redskins into a marketing machine. With a value that FORBES estimates at $1.1 billion, the team is the richest franchise in U.S. sports and the first American team in FORBES rankings ever to clear the billion-dollar mark. Snyder has expanded the stadium to mythic proportions—it is the largest in professional football, holding 92,000—and plastered ads throughout the stadium and across a range of broadcast properties and publications. Executives eagerly fork over hundreds of thousands of dollars

Humble pie: Snyder has given the reins of his team to Joe Gibbs.

GETTY IMAGES (LEFT) GARY HERSHORN REUTERS NEWSCOM

a year to occupy 234 corporate suites.

Despite the 47% appreciation in the value of the Redskins since Snyder bought them, he's left a lot of money on the table because he's been too meddlesome. He's doled out huge player contracts of dubious value to aging superstars like Deion Sanders (seven years, $56 million) and hired and fired coaches with alarming frequency (five different head coaches in five years). The strategy backfired, leaving the Redskins paying on the contracts long after the players retired.

After the end of last season, when the team had only 5 wins against 11 losses, head coach Steve Spurrier was so disenchanted with working for Snyder that he quit and walked away from $15 million remaining on his five-year, $25 million contract. The Redskins have a losing record over the past five years.

To his friends, even Snyder himself now confides: "We've made some mistakes."

While most of us are scrunched on top of each other in our seats, Snyder spends home games inside the cherrywood confines of his luxurious owner's suite, smoking cigars and drinking Scotch with dignitaries and celebrity friends. "C'mon, have some fun," he urges his guests, who include former Secretary of State Madeleine Albright, FCC Chairman Michael Powell and former CNN anchor Bernard Shaw. But as the new season begins, Snyder is, uncharacteristically, talking very little. Shouldering the blame as the Redskins rack up losses, he has come to realize that being a lifelong fan and toting a fat checkbook aren't enough.

So Snyder has reached back into the team's past for some help, bringing coach Joe Gibbs, 63, out of retirement. The Hall of Famer had led the Redskins to three Super Bowl championships in the 1980s and early 1990s; now he will reap $28 million over five years to serve as head coach and president.

The addition of Gibbs enhances one of the country's strongest sports brands, says Marc Ganis, who heads the Chicago sports marketing firm Sportscorp Ltd. More important, it diverts the spotlight from Snyder himself. "Snyder is now experienced enough that he is comfortable having someone who has the spotlight more on them," Ganis says.

On the night when the National Football League's free-agent negotiating period officially started this spring, Gibbs began calling prospective players at one minute past midnight. A year earlier coach Spurrier was away on vacation when the free-agent negotiations started.

HAIL TO THE CHIEF

The Redskins lead the NFL in virtually every revenue category, thanks to a loyal and wealthy fan base.

AVERAGE TICKET PRICE
$68 ($53 NFL Average)

NUMBER OF SUITES
234 (143)

ATTENDANCE[1]
667,000 (529,000)

SUITE REVENUE
$35 million ($13 mil)

SPONSORSHIP/AD REVENUE
$32 million ($13 mil)

CONCESSIONS/PARKING
$11 million ($4 mil)

All figures are for 2003 season. [1]Excludes club seats and luxury-suite seats. *Sources: Forbes; Team Marketing Report.*

The overbearing Snyder handled everything. Gibbs, says Vinny Cerrato, the head of football operations, "is much more involved than any of the other coaches have been."

Gibbs redux already is adding value to the team's bottom line. In August, the day before the Redskins played their first home preseason game, Snyder excitedly walked around the stadium, inspecting 5,000 new seats that he added this summer. Three hundred of them are "dream seats," priced at $3,500 each per game and close enough to the action for fans to high-five players after they run off the field.

The new additions also include luxury loge seating, where fans can buy individual seats in catered, climate-controlled areas without springing for an entire corporate suite. Snyder also has added 150 seats to his "owner's club" area, where suites go for up to $200,000 per season and amenities include restrooms with individual TV screens over each urinal. The team's revenue from premium seating is expected to hit $75 million this year, which we estimate will be more than three times the league average. What made the new premium seats salable? Heightened interest after coach Gibbs was hired.

In five years Snyder has increased the team's revenue by 60% to $245 million per year. Some of it was easy, if a little mercenary. He sold stadium naming rights to FedEx for $207 million over 27 years, reaping the most lucrative deal of its kind. Never mind that the stadium, completed in 1997 a few months after the death of longtime Redskins owner Jack Kent Cooke, had been named in Cooke's honor; Snyder simply scrapped the moniker.

He also increased the number of team-owned radio and television shows, partnering with broadcasters to produce several programs and sell ads across myriad platforms to such sponsors as Nextel, Home Depot and E-Trade. "We don't just sell stadium signage," Snyder likes to boast. He personally courts advertisers. When he took over he discovered that one consumer products company was paying only $180,000 a year for an exclusive deal that prohibited the team from striking an agreement with a competitor. Snyder renegotiated, lifting the price to $2 million a year and getting rid of the exclusivity; then he sold a similar deal to the sponsor's rival for another $2 million a year.

Since 1999 annual revenue from marketing and sponsorship has gone from $2 million to $50 million. At the same time revenue from local radio broadcasts has increased tenfold to $10 million. Additionally, Snyder has expanded the team-owned

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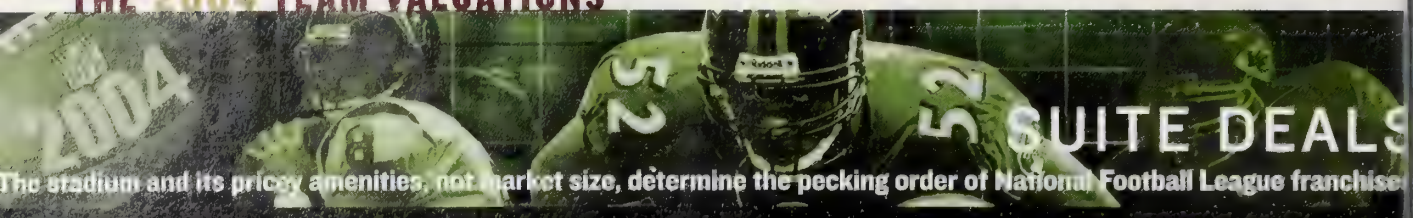

SUITE DEALS

The stadium and its pricey amenities, not market size, determine the pecking order of National Football League franchises

RANK	FRANCHISE/PRINCIPAL OWNER(S) (YEAR ACQUIRED)	VALUE CURRENT[1] ($MIL)	VALUE 1-YEAR CHANGE	VALUE ANNUALIZED CHANGE[2]	DEBT/ VALUE[3]	REVENUES ($MIL)	OPER. INC. ($M
1	WASHINGTON REDSKINS | Daniel Snyder ('99)	$1,104	16%	8%	20%	$245	$69
2	DALLAS COWBOYS | Jerral Jones ('89)	923	8	13	14	205	37
3	HOUSTON TEXANS | Robert McNair ('99)	905	14	5	36	201	55
4	NEW ENGLAND PATRIOTS | Robert Kraft ('94)	861	14	18	54	191	30
5	PHILADELPHIA EAGLES | Jeffrey Lurie ('94)	833	35	16	40	198	44
6	DENVER BRONCOS | Patrick Bowlen ('84)	815	19	12	25	183	42
7	CLEVELAND BROWNS | Randolph Lerner ('98)	798	15	7	13	183	59
8	CHICAGO BEARS | McCaskey family ('20)	785	26	21	25	175	33
9	TAMPA BAY BUCCANEERS | Malcolm Glazer ('95)	779	16	17	18	175	25
10	BALTIMORE RAVENS | Stephen Bisciotti ('00)	776	20	7	35	172	34
11	MIAMI DOLPHINS | Wayne Huizenga ('93)	765	20	17	26	170	32
12	CAROLINA PANTHERS | Jerry Richardson ('93)	760	18	13	16	169	17
13	GREEN BAY PACKERS | community-owned ('21)	756	24	NA	4	168	23
14	DETROIT LIONS | William Ford ('64)	747	18	14	29	168	25
15	TENNESSEE TITANS | Kenneth Adams Jr ('59)	736	19	26	17	164	22
16	PITTSBURGH STEELERS | Daniel Rooney ('33)	717	18	19	14	159	35
17	SEATTLE SEAHAWKS | Paul Allen ('97)	712	17	20	16	158	6
18	KANSAS CITY CHIEFS | Lamar Hunt family ('60)	709	18	26	18	159	24
19	ST LOUIS RAMS | Georgia Frontiere ('72), Stanley Kroenke ('95)	708	18	12, 15	14	157	21
20	NEW YORK GIANTS | Wellington Mara ('25), Preston Tisch ('91)	692	21	20, 12	9	154	20
21	JACKSONVILLE JAGUARS | Wayne Weaver ('93)	688	21	11	18	153	16
22	NEW YORK JETS | Robert Wood Johnson ('00)	685	21	2	15	152	26
23	CINCINNATI BENGALS | Michael Brown ('66)	675	20	13	1	150	14
24	BUFFALO BILLS | Ralph Wilson Jr ('59)	637	13	25	11	152	28
25	SAN FRANCISCO 49ERS | Denise DeBartolo York ('77)	636	12	15	16	151	29
26	NEW ORLEANS SAINTS | Thomas Benson ('85)	627	7	12	0	157	7
27	OAKLAND RAIDERS | Allen Davis ('66)	624	8	24	8	149	26
28	SAN DIEGO CHARGERS | Alexander Spanos ('84)	622	11	12	16	148	22
29	INDIANAPOLIS COLTS | James Irsay ('72)	609	11	12	21	145	13
30	MINNESOTA VIKINGS | Billy Joe McCombs ('98)	604	12	16	21	144	4
31	ATLANTA FALCONS | Arthur Blank ('02)	603	13	NA	45	144	6
32	ARIZONA CARDINALS | William Bidwill ('32)	552	9	14	14	131	-4
	LEAGUE AVERAGE	$733	17%	14%	20%	$167	$26

Revenues and operating income are for 2003 season. [1]Value of team based on current stadium deal (unless new stadium is pending), without deduction for debt (other than stadium debt). [2]Current team value compared with most recent purchase (excluding inheritance) of controlling interest. [3]Includes stadium debt. [4]Earnings before interest, taxes, depreciation and amortization. NA: Not applicable.

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For more statistics and stories on the National Football League, please go to www.forbes.com/extra

Statistics editor: Kurt Badenhausen. Research: Adam Brenner, Cecily Fluke, Lesley Kump, Michael K. Ozanian, Lacey Ros

ARMANI
COLLEZIONI

CARDINAL RED

Clearing a profit in the NFL is as easy as falling forward, thanks to a $2.6-billion-a-year TV contract that is split evenly among all 32 teams and a cap that limits player salaries to 65% of revenues. Last season the average NFL team earned a profit (before depreciation, interest and taxes) of $26.6 million.

But the Arizona Cardinals last year ran a loss of $4.9 million, the first for any team in the past three seasons. Owner William Bidwill, whose father, Charles, bought the franchise for $50,000 in 1932, has proven that if you field a poor team and have a lousy stadium deal, you can lose money.

The Cardinals have won just one playoff game in 50 years. Since 1985 they have had only one season with a winning record. Last year the team won only 4 games out of 16. Attendance last year at the 8 games played at home in Tempe, Ariz. totaled 288,000, or 140,000 fewer than for the next-lowest team. Most Sundays a third of the seats are empty.

Bidwill has had four different head coaches in ten years. That kind of turmoil makes it difficult to draw and retain star players.

When Bidwill moved the Cards from St. Louis to Arizona State University's football stadium in 1988, he got what was at the time a good lease. But stadium economics have changed rapidly in the NFL over the past decade, and now the Cardinals have one of the worst leases in the league.

They are forced to share stadium revenues from parking and concessions with the college; most NFL teams pocket millions of dollars more than the Cardinals. They pulled in just $3 million in suite revenue last year, while other teams average four times as much. All told the Cardinals took in $130 million last season, $36 million less than the NFL average.

Bidwill's birds, though they are the lowest-value team in the NFL, still are worth, we calculate, $552 million to a buyer who knows what to do with the assets. Profits should improve: The taxpayers of Arizona have generously agreed to build a new cash-spewing stadium in Glendale for the 2006 season.

—Kurt Badenhausen

BEST COACHES

Last season the New England Patriots won the Super Bowl, even though their player expenses were just $97 million, tied with the Chicago Bears at 23 out of 32 teams. That landed their head coach, Bill Belichick, in first place in our NFL ranking of player-costs-to-win ratio (each postseason win carries twice the weight of a regular season win). Score of 100 equals NFL average.

Bill Belichick
NEW ENGLAND
218

John Fox
CAROLINA
195

Tony Dungy
INDIANAPOLIS
188

Jeff Fisher
TENNESSEE
164

Andy Reid
PHILADELPHIA
161

Visit www.forbes.com/extra for a complete listing of the coaches.

retail outlets (where some jerseys sell for over $300) from a single, stadium store open only on game days to 12 stores in the Washington area. Snyder was also the first football owner to charge fans to watch their team practice.

Although the NFL limits players' salaries to 65% of revenues, Snyder has a big advantage over his rivals because signing bonuses are prorated over the life of a contract for salary cap purposes. The team signed tackle Jon Jansen to a six-year, $25 million contract to start with the coming season. Last year the Redskins had operating income (net before depreciation, interest and taxes) of $69.6 million, the highest in the NFL.

"Snyder is a marketing genius," says Salvatore Galatioto, managing director of sports finance at Lehman Brothers. "If Gibbs turns things around on the field, Snyder will make even more money." Galatioto handled Snyder's recent sale of 30% of the team's equity to three investors: Federal Express founder and chairman Fred Smith, Virginia real estate developer Dwight C. Schar, and Robert Rothman, a Florida insurance executive. The equity stake sold for $225 million, which Snyder used to pay down debt that now totals $225 million. Other minority stakeholders in the team include Snyder's mother and sister, and Fred Drasner, a publishing executive.

Why such a low price for a 30% stake? Because suite and sponsorship revenue were not included. Those proceeds belong to a separate entity that includes the stadium. Snyder's brazen style has at times annoyed other owners. He once advertised his premium seats in the nearby Baltimore Ravens market, breaking an old gentlemen's agreement in the league not to poach. Four years ago he did an end run around league rules when he bought out a minority partner, real estate mogul Mortimer B. Zuckerman, without first getting the permission of the NFL.

Snyder's profligate spending continues: This season the Redskins will have the highest payroll in the league at $112 million (the team can exceed the salary cap because signing bonuses are prorated over the life of a player's contract). "Dan swings for the fences," says Cerrato, the Skins' operations chief. "He wants to win." But Snyder has changed his approach this year, giving the richest contracts to younger stars who will be around to earn the money, Cerrato says.

This isn't a game, this is a business. If Snyder's bet on Joe Gibbs works and the victories start rolling in, the owner will reward the loyal fans with a surprise, says one knowledgeable source: He will raise our ticket prices next season. F

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GETTING AN INQUIRing phone call from Masco was always a big deal for the midwestern family businessman who maybe was looking to sell his factories turning out brass valves, hot tubs, insulation or bath vanities. For years the Detroit building products conglomerate, originally run by Alex Manoogian and then by his son Richard, eagerly bought dozens of these businesses, always with hands-off respect. When Orville Merillat, a deeply religious man from Adrian, Mich., sold his cabinetmaking firm to the Manoogians in 1985, Masco gladly obliged his one personal request: that there be no wine racks sold under the Merillat name.

But the days of accommodation and acquisition are over. After spending $10 billion on 42 buys between 1997 and 2002, Richard Manoogian, the 68-year-old chief executive, has been busy selling off pieces, scrunching formerly isolated companies together, moving factory work from the U.S. to Canada and imposing synergies like never before on the businesses often still run by the sons and daughters of their founders. (Merillat now makes wine racks, at the behest of Orville's son.)

Manoogian has also sat on his wallet for the last 18 months. "We expect the pace of acquisitions to be much slower because we don't need more brand names," he says. Masco's sales of $10.9 billion and profit of $806 million last year are built on stalwart brands every Home Depot shopper knows: Delta faucets, Behr paint, and Mill's Pride and Kraft-Maid cabinets.

The personality shift, announced early last year, came about after Manoogian suffered a series of financial lows in 2000 and 2001. His debt was building as returns on assets, capital and sales were falling. Wall Street, fed up with Masco's convoluted financials and its seemingly endless bingeing, had pushed the stock from $30 in 1998 to below $15 in late 2000.

The company drew criticism from analysts (and FORBES) over its history of insider stock sales and related-party deals, including art sales between Richard Manoogian and the company, and a 2001 stock buyback in which his son Richard Jr., acting as Masco's stockbroker, made $1.8 million for his firm. The chief executive paid himself well, earning cash and exercised options worth an average $11.3 million annually between 1998 and 2003 despite shareholder return of 3.5% a year over that period.

In 2003 Manoogian, a Forbes 400 member whose family's stake in Masco is worth $414 million, was looking at his last best chance to clear his name and vault his family into the top echelon of American family fortunes (FORBES estimates his total net worth at $950 million). He knew he would be retiring sooner rather than later from the company his Armenian immigrant father started in 1929 as a supplier to automakers. None of his children or grandchildren work there. "I felt we had done a lot, and it wasn't coming out on the other end," says Manoogian.

So he announced in 2003 that Masco would run as a single company instead of a motley array of family businesses making metal office furniture, insurance repairs and door locks. Masco did $285 million in dispositions last year with $300 million scheduled for this year. What's left are the strong suits: It is the world's biggest cabinetmaker and produces most of the country's under-sink valves and two-thirds of all automated teller machine locks. Masco now spends its cash on shareholders, paying $1.8 billion to buy back stock and issue dividends since the beginning of 2003.

So far the plan seems to be working. Return on invested capital, which had fallen as low as 10% in 2001, is up to 12% and should, Manoogian vows, hit 15% by 2008. The stock is cents away from its 1999 high of $33, though it still trades at 12 to 15 times next year's earn-

Hardware king Manoogian is tending to his company's plumbing.

DONNA TEREK FOR FORBES

Un-Building Masco

After decades of buying everything in sight, Masco is paring down. But will entrepreneurs sell to Richard Manoogian again?

BY CHANA R. SCHOENBERGER

ings, down sharply from a 20 earnings multiple in 1998.

Some of that discount is due to rising interest-rate jitters affecting stocks throughout the home-improvement business, but investors are also afraid that Masco might jump back into the buying game in three or four years. The question then will be whether entrepreneurs will take his calls. John Sznewajs, Masco's vice president of business development, says he's seen grown men cry when signing over the companies their fathers founded. "That's a real issue," says Richard Manoogian. "That was one of the factors we thought hard about when changing the strategy. In the past we told people they were going to be left alone, and we can no longer say that to them."

One of those people was Randall Fenton, who sold his insurance repair contracting business in two chunks to Masco in the late 1990s. He and his partners negotiated a deal to run the company and keep their employees and their company plane, despite the fact that Masco had a fleet. His firm, Inrecon, is now owned by another company, and he looks back warmly on his Masco days. Yet he says, "If I didn't know them, I'd probably take a step back and look at the deal from all sides. If it was a different scenario, one that took away more of my autonomy, I might have to rethink that a little bit."

But the existing shareholders are the people Manoogian manages for, not potential sellers. If he can wring out waste and stop blowing opportunities for synergies, richer profits and a rising stock price would go a long way toward attracting future sellers and placating in-house entrepreneurs used to having their own way. Though Manoogian is the biggest individual shareholder in Masco, the families of acquired firms own 13% of its $13.8 billion in market value, twice as big a stake as Masco employees, who own 7%.

"If I knew everything I know today, versus what I knew back then, maybe we would have been a little less aggressive in how fast we grew and how much we built up," says Manoogian. "Now it's up to us to prove that we can have a much stronger focus on shareholder returns."

Once Masco started looking, it found abundant redundancies. Every group at Masco had chosen its own back-office software, and each brand had its own salesman who called on big customers. Home Depot, which represents 22% of Masco's sales, would get separate sales calls from the 18 Masco operating companies that sold it 25 different product lines. When a 1999 flood damaged an Ohio plant belonging to one Masco unit, execs back in Detroit didn't think to hire Inrecon's repairmen.

So Manoogian sorted the company into five groups (cabinets, plumbing, installation services, architectural decor, and specialties), forbade more big acquisitions and picked off the outliers to sell off or shut down. He sold the Weiser lock and Baldwin hardware brands to Black & Decker and got rid of the metal office furniture business. The number of divisions is down from 67 to the mid-50s and heading toward the low 40s by 2005.

People are starting to work together. Karen Mendelsohn, an 18-year veteran who now heads marketing, spearheaded an effort two years ago to get five of the bath brands to use matching Venetian bronze finishes, making millions extra in cross-sales. Masco plans to save $8 million in 2004 and $25 million next year by merging similar brands, such as KraftMaid and Mill's Pride. KraftMaid is now making Merillat's semicustom Masterpiece line, while Brasstech (towel racks and faucets) has turned over some of its metal machining work to Brass Craft (sink valves and fittings).

Masco has also had to figure out how to sell as graciously as it bought. Instead of sifting through hundreds of acquisition targets annually, these days Sznewajs is supervising the sale of eight small European units. So as not to ruin its reputation with company owners when it decides to get back into acquisition mode, Masco is careful to take care of the managers whose divisions it sells. Once a unit is slated for the block, the group head flies out to present its managers with retention bonuses and accelerated stock-vesting packages. Masco also sometimes offers the managers, or the founding family, the chance to buy the unit back.

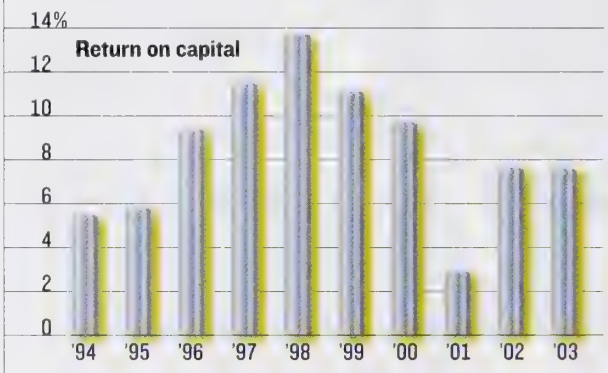
That's what happened at Marvel, a Chicago metal office furniture manufacturer that Masco sold in 2003 to five executives, adding a promise to keep Marvel as an office furniture supplier. If managers can't or won't come up with the money, Masco puts the unit up for sale. But execs often still have input into who their new bosses will be.

Under the new regime Masco has let tempting acquisitions pass it by. Masco had several times considered buying fiberglass-door company Therma-Tru, but Manoogian stood by in November when Fortune Brands bought the outfit for $925 million. "You won't see us buy freestanding businesses anymore," says Timothy Wadhams, chief financial officer. Instead, to get their full bonuses this year, managers will have to boost profits, cut inventory and cut receivables.

Masco has been Richard Manoogian's life's work. He came back to Detroit to join his father's company right after graduating from Yale in 1958. Nearing retirement, he has President Alan Barry, himself already 61, as a likely successor. A locked file cabinet in Barry's office brims with binders on the succession plans of every division under Barry. There are no Manoogians in those binders. This is Richard's last shot. F

Bouncing Back From the Binge

As Masco piled on more companies in the 1990s, its return on capital grew, then fell steeply. With no new buys of late, its returns are creeping up again.



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Blueprint for the Earth

"HOW MUCH WOULD YOU BE WILLING TO PAY TO STAND on the stern of the last oil tanker to leave the Middle East, waving good-bye as you go?" Physicist James Trefil asks this question almost as an aside, more than halfway through his provocative new book, *Human Nature*. He gets to oil only at tail end of his chapter on global warming—one among many chapters that will infuriate party-line greens. Trefil isn't much persuaded by computer models that predict what our climate will be like a century hence. But he's all for saving energy where we reasonably can, if only because he'd pay quite a lot for that last wave. So would most of us. But another question arises: Would the people left standing on the dock wave back?

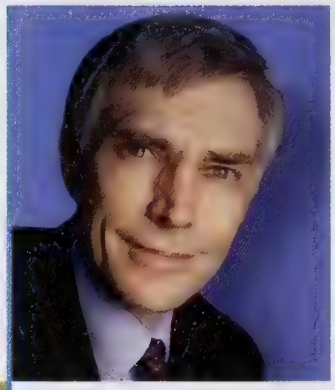
Genetic engineering is one end of human technology; genocide is another. Man's natural predator is man.

Cut back to Trefil's first chapter. Humans, like all the rest of nature's creations, once "lived out their lives in a world completely governed by the laws of natural selection." With the rise of agriculture things began to change—humanity began to separate itself from the "natural" scheme. We've been separating further ever since, and very rapidly indeed in recent decades. In the industrialized world, at least, our choices and our future are now governed not by natural selection but by science and technology. So, too, is the future of the biosphere.

And this separation need not end up badly, Trefil argues. Our ingenuity has overcome natural scarcity. Malthus was wrong; humanity can feed and fuel itself. Over time we can also ward off, or if need be extinguish, every natural predator, from the AIDS virus on up. And we are now on the threshold of even being able to correct mistakes in our genes, nature's blueprint for what is no longer part of nature. We can protect nature itself, too, from our appetites and our effluents, and even gently steer nature as a whole toward our own ends. Nature used to rule us; now we rule nature.

This is the point Trefil is making in the title of his book: Like it or not, it's going to be *human* nature from here on out, by which Trefil means nature shaped by human will. For the most part Trefil does not recoil at this new reality. The outlook is much better than many people believe, and it could be better still. The book's subtitle: *A Blueprint for Managing the Earth—by People, for People.*

But what about those other people back on the dock? The



tiny but consequential sliver of the population, whose culture, poverty, genes—whose human nature, in short, however formed—impels them to destroy?

Much of humanity clearly doesn't share our own love of wilderness. More than a few people still love whales for their meat and rhinos for their horns. Many hate tigers, which view us as meat, and elephants, which view human crops as their own. Our own reverence for unspoiled nature developed only recently. A sense of empathy for the rest of nature may in fact be exceptional and rare. Why should Darwinian forces of natural selection ever have created brains with any such sense at all?

More fundamentally, to argue that technology is moving humanity beyond natural selection is to assume that we are all one happy humanity. Experience teaches otherwise. Genetic engineering is one end of human technology; genocide is another. Man's natural predator is man. And as predators go, homo sapiens can far surpass any to be found in nature. It could hardly be otherwise: Today's technology lets people unleash nature's own scourges—smallpox or anthrax, for example—or deliberately disperse chemicals far more toxic than any produced by a hornet or a rattlesnake.

The most hopeful response is that the predatory people and cultures never master science—science is the systematic exclusion of dogma, superstition and paranoid fantasy. But what matters in the new Darwinian jungle isn't science, it's technology, which can be stolen and mastered even by people who could never develop it themselves. Stalin and his spies maintained just enough talent, and stole enough technology, to build rockets and nuclear weapons. Nazi Germany got almost as far. Fanatical young men steeped in a culture that could never manufacture even a box cutter can still buy one and hijack a jet. Our only option is to keep certain demented pockets of humanity utterly isolated and technology-free. If we can.

That's what really scares us about certain sources of oil—what the money we pay for it might eventually buy. Given his doubts about global warming, Trefil probably isn't too worried about the damage to be done to the world by a tanker carrying Alaskan crude. What he really wants to wave good-bye to isn't oil but a region, a culture, a feudal theocracy, a fanatical sect. Men who would separate themselves from nature, its seems, must first separate themselves from other men. F

Forbes.com | Peter Huber, a Manhattan Institute senior fellow, is coauthor of the forthcoming *The Bottomless Well* (Basic Books, 2005). Visit his home page at www.forbes.com/huber.

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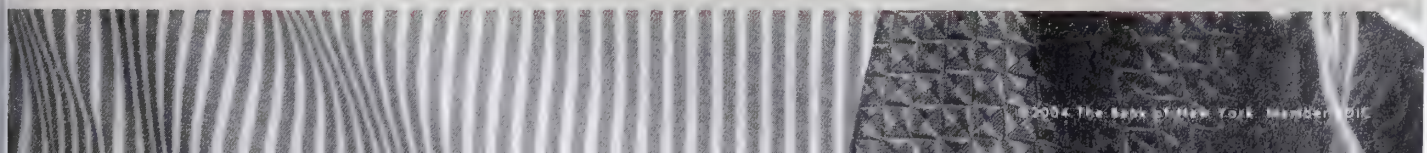


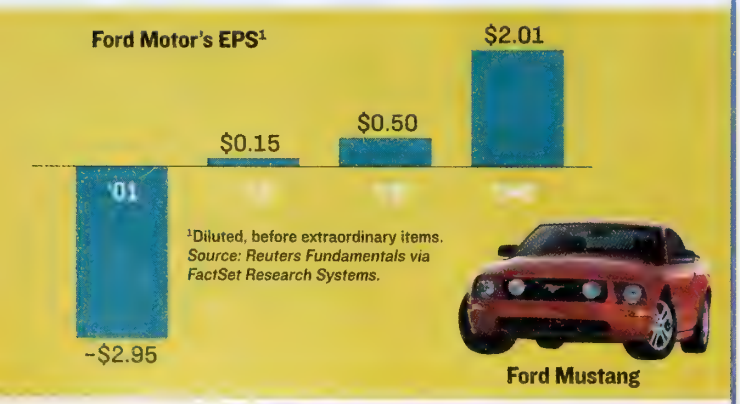
Surprise—Black Ink

AS DETROIT GOES, SO GOES THE NATION. WHICH makes the news from the auto industry very sweet. In seven months Americans have bought 9.9 million cars and light trucks, 200,000 more than last year. If sales just equal last year's for the remaining months, it's a 16.8 million year. That's excellent, just shy of the 17.4 million peak in 2000.

Then I read an op-ed column in the *New York Times (Aug. 9)* headlined "Admit We Have a Problem." It's getting harder, it says, to "close our eyes to the growing economic devastation."

Economic devastation? In the last five years we have bought 85 million new cars and trucks. If you figure they go to families of three, that means 250 million people ride in a new vehicle. Yes, there are single buyers, and some people buy a new vehicle every year and some get wrecked, but it gives you an idea. If we are on the road to economic perdition, at least we are driving there in style.

It's an election year, and the outs are saying that there are two Americas. One America is driving those new vehicles. The other America must be driving rust buckets and junkers. When I was younger I saw lots of old rusty junkers on the highway. But not anymore. Practically everything looks new.

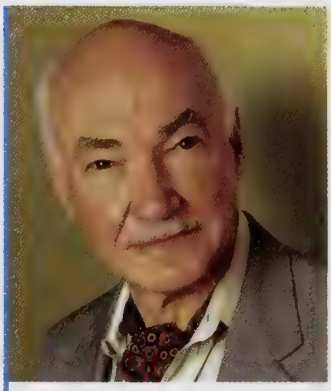


Now here's a prediction: Next year will be an even better one, even if unit volume is the same, in the sense that Detroit—at least two of three companies there—will make good profit.

Ford is in tune for 2005, with expanding profits and even an expanding market share. The plants making the F-150 pickup will all be converted to the new model and running full. The heavy-duty pickups—the huge ones with expensive diesel engines—will be new in fall. These are extremely profitable trucks.

The Ford cars will do even better. A new Mustang is going into production. It's the best Mustang ever and will be a sellout. There's a new sedan called the Ford 500, at around $26,000, plus a Mercury version and a crossover sport utility called the Freestyle coming out of the Chicago plant that used to build the Taurus car. These new models will be a success.

The remaining Taurus plant should run full, and



Ford will be able to sell the cars, not just give them away to fleets as it was doing when the two plants were busy with the Taurus. Ford will lose some sales from its older SUVs, like the Explorer and Expedition, but make them up with that new, smaller Freestyle.

Chrysler will be profitable, too. Its new big Chrysler 300 and Dodge Magnum station wagon are hot. A third model off that same platform, a Dodge sedan, will come next year. Half the buyers want the premium Hemi V-8 engine. These cars and the Hemi are an old-fashioned Detroit home run.

The Dodge Ram pickup still is a winner, as is the Durango SUV. The Jeeps are selling well. This fall Chrysler has an improved Jeep Grand Cherokee and a smaller Dodge Dakota pickup. Both should sell well. The minivans are under pressure from the Japanese, but continue to be the leaders in this segment. No doubt about it: There is a big year coming for Chrysler in 2005, and the profits will make the German owners in Stuttgart breathe easy at last.

We won't see that kind of recovery at GM. The trucks and big sport utility vehicles, the heart of GM's success in recent years, are aging and under pressure from Ford, Chrysler and the Japanese. New models are still in the future. A small Chevy called the Cobalt, a Pontiac called the G6, the Buick LaCrosse and the Cadillac STS are fine, improved, better than the old ones they replace. But chiropractors won't get rich treating people who hurt their necks turning to watch them go by.

The turnaround at GM isn't as fast as at Ford or Chrysler, but it's coming.

Now, all this cheery forecasting hinges on an assumption, that 2005 will be another good year, with sales of somewhere between 16.5 million and 17 million vehicles—absent an economic earthquake or another oil shock. The auto market seems to be handling $2 gasoline. But $3 could do some real damage.

Here's a suggestion for Ford. Ford is building its first hybrid right now, a version of its small Escape SUV. (For more on the economics of hybrids, see Peter Huber's story in the July 26 FORBES, at www.forbes.com/huber.) The key component, the hybrid battery, comes from Sanyo in Japan. Offer Sanyo a deal, a joint venture. Ford has the money, Sanyo the technology. Build a 300,000-capacity battery plant in America. This would be an insurance policy for Ford against an oil shock. It could start a fuel-saving earthquake in Detroit. F

Forbes.com | **Jerry Flint**, a former Forbes Senior Editor, has covered the automobile industry since 1958. Visit his home page at **www.forbes.com/flint**.

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FOB9/04

Dirty Money

The Class Action Industrial Complex

Congress tried to crack down on the class action racket in 1995. Today shareholder suits are bigger than ever, fed by a cozy cabal of lawyers, unions and public pension funds. **The only real loser is you.**

By Neil Weinberg and Daniel Fisher

THREE YEARS AGO A COUPLE OF LITTLE-KNOWN LAW FIRMS STOOD POISED TO REAP THE BIGGEST shares of a huge legal fee: $262 million—$10,861 per billable hour—for their role in landing a $3.2 billion settlement against scandal-scarred Cendant Corp. Then Leslie Conason got in their way. Conason, a staff lawyer for New York City, whose pension fund was one of three lead plaintiffs represented by the two firms in the Cendant suit, was outraged by the sum. She tried coaxing the pair of firms—Bernstein Litowitz Berger & Grossmann of New York and Barrack, Rodos & Bacine of Philadelphia—into taking less. They refused. When she asked the presiding judge in the Cendant case to scale back the legal windfall, she was rebuffed. Then she appealed to the U.S. Third Circuit Court of Appeals.

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Leslie Conason: a lonely fight against $10,800-per-hour fees.

The appeals court called the fees "staggering" and ordered the parties to agree on a smaller sum. In the brawl that ensued, the law firms accused their client Conason of reneging on a deal. They filed complaints with her boss. "It was a very ugly experience," she says. But she prevailed. When the dust settled, the lawyers had cut their fee to $55 million, letting the $207 million difference go to the city fund and thousands of other shareholders.

But here's the weird part: Conason had to wage this fight alone. The other two lead plaintiffs—the New York State Common Retirement Fund and the California Public Employees' Retirement System—did not join her push for lower fees. Never mind that if she won, the two funds would get more money. "As fiduciaries, we [city officials] were all scratching our heads that New York State and Calpers weren't interested in opposing the $262 million fee," Conason says.

H. Carl McCall, who at the time was state comptroller and the sole trustee of the New York State fund (assets: $116 billion), says there was no need for him to challenge the legal fees because the city was taking care of it. Was that the only reason he wasn't complaining about the $10,861-per-hour fee?

McCall's ties to the two law firms are close. He played a role in naming Bernstein Litowitz and Barrack, Rodos to handle the Cendant case and a few others, including a suit against WorldCom and Citigroup in the wake of the telco's belly flop. Citigroup has agreed to pay $2.65 billion to settle. Barrack, Rodos and Bernstein Litowitz will reap the biggest pieces of a $144 million payday if the court agrees.

McCall, meanwhile, received $140,000 in campaign contributions from the two class action firms between 1998 and 2002. That had no impact, either, McCall asserts. "They not only contributed to me but happen to be major Democratic donors," he says. His successor, Alan Hevesi, received $55,000 in 2002 from the two law firms and affiliated political action committees.

And so it goes in the cozy confines of the class action racket. Plaintiff lawyers give handily to the politicians who hire them. They hire ex-insiders to woo pension funds, fete clients at cushy conferences and pay referral fees to powerbrokers who hook them up with new pension plaintiffs. None of this is illegal per se; nor does it violate existing rules of legal ethics. But even some lawyers have problems with it.

"This is corruption on a grand scale," says class action lawyer Howard Sirota of New York, who says payola by his rivals may force him out of the game. Contributing cash to the officials who oversee your business "is illegal in municipal finance. The American Bar Association [discourages] it. A grand jury is investigating

it *(see* FORBES, *Feb. 16)*. And absolutely nothing happens," Sirota says.

Last year plaintiff shareholders won $3 billion in class actions against the companies they had invested in, says Institutional Shareholder Services. (Let's ignore, for now, that often they drain money from companies in which they still hold a stake; *see box on this page.*) The take was distributed in small chunks to thousands upon thousands of recipients. But $800 million of it will go to a small circle of very lucky people: securities plaintiff lawyers.

The plaintiff lawyers had help in amassing their $800 million take—from pension fund trustees who are oblivious, defense attorneys who won't challenge the fees because it might prompt the other side to push for an even bigger settlement and insurers who are happy to charge higher premiums to cover the rising costs of litigation.

The Republican-controlled Congress hoped to smash this lawsuit cabal when it passed the Private Securities Litigation Reform Act in 1995. It was touted as the end of frivolous class actions and obscene fees. In the past, firms such as Milberg Weiss Bershad Hynes & Lerach raced to the courthouse when a company fell into trouble, filing a fast case in the name of an Average Joe. "I have the greatest practice of law in the world. I have no clients," FORBES once quoted former Milberg Weiss partner William Lerach as saying.

The reform law hands control to big institutional investors. Nicknamed the "Anti-Milberg Weiss Act," it requires that lead plaintiff status must go to the investor who suffered the greatest loss. Big investors, Congress hoped, would shun frivolous suits and push to cut legal fees.

But the act has morphed into an industrial-strength shakedown. Trial lawyers reached out to new partners: the boards of public and union pension funds. They often include union veterans unabashed about suing corporations. These boards, rather than cutting back on lawsuits and pressing lawyers for lower fees, have jumped into bed with them.

The law firms Bernstein Litowitz and Barrack, Rodos have proved especially deft in this new world. Bernstein Litowitz, with 36 lawyers, landed nine settlements last year, worth $950 million in damages, second only

Negative-Sum Game

Class action lawyers like to crow about how much money they recover for shareholders, but much of the windfall comes from their clients' own pockets, a kind of robbing Peter to pay ... Peter. Face it: Whether the proceeds come from the company or its insurers, investors ultimately foot the bill. "You're just taking money out of one pocket and putting it in the other," says Keith Johnson, chief counsel for the State of Wisconsin Investment Board.

Even when investors in, say, WorldCom, exact recompense from an outside party such as the company's banker, Citigroup, big institutions and anyone who owns a large-cap index fund likely are just taxing themselves. Lawyers, of course, disagree. "Most of our clients sold stock [at a loss] due to a wrong, and they're entitled to recourse," says Max Berger, senior partner at Bernstein Litowitz Berger & Grossmann. "That current shareholders [ultimately] pay for it is unfortunate but doesn't mean the company shouldn't pay."

Last year securities-fraud settlements ran an average of $21 million per case, and half of all settlements came in at less than $6 million, says Cornerstone Research. Big companies typically buy $40 million or more in insurance coverage for directors and officers, so they are mostly covered. To public companies, that makes such suits just another cost of business. But it's a rising one: The median price for D&O insurance rose 61% in three years to $50,000 in 2003. Class actions are a growth business for insurers and for law firms on both sides of the table.

Oxford Health last year settled a case for $300 million, with $75 million coming from its accountants. The company also took a $182 million pretax charge for the amount not covered by its insurance. The result was a cash dividend paid to former Oxford shareholders by current ones. Anyone who held on throughout paid himself—minus $84 million in fees for the plaintiff lawyers.

A rare exception is a Wisconsin suit against Anicom. The $40 million settlement included $12.4 million from Anicom's former chairman, Alan Anixter, and his son, Scott. That is because Wisconsin hired outside the usual lawyer pool and dangled a 5% "kicker" for any money won from other parties.

—D.F. and N.W.

to Milberg Weiss, says Institutional Shareholder Services. Barrack, Rodos, with half as many lawyers as Bernstein, did five settlements last year, for $390 million, ranking fifth, ISS says.

Bernstein Litowitz sues on behalf of public pension funds in New York, Florida and Louisiana and has focused on big institutions since its inception in 1983. It is run by Max Berger, a fatherly senior partner with an unabashed affection for class actions. "I wanted to get into this business because I believed I could make a good living and do good," he says. He is proud to have recouped 40 cents and 50 cents of each dollar lost in the Cendant and 3Com cases, respectively, compared with an average of just 5 cents in such cases.

Leonard Barrack, a tough-talking Temple Law School grad, founded Barrack, Rodos in Philadelphia in 1976 and made it into a class action powerhouse. The firm goes to war for public pension funds in New York and Florida and several big union funds in Chicago. How it landed some clients is the subject of a federal grand jury investigation and a lawsuit settled last month. Barrack was the chief fundraiser of the Democratic National Committee in 1998 and has given upwards of $100,000 a year to Democratic pols. He declined to be interviewed for this story.

All told, public and union pension funds were lead plaintiffs in 28% of investor class actions last year; in 1996 they led just 3% of cases, says PricewaterhouseCoopers. Yet they have done nothing to improve shareholder recoveries or reduce significantly the lawyers' cut. "We have a system where the courts consistently allow law firms to file cases on behalf of figureheads," complains University of Arizona law professor Elliott Weiss. Translation: The lawyers still run the show. It is a pointed criticism, for Weiss did the research on class action settlements that helped shape the reform act.

Even some pension fund officials admit the lawyers, not the funds, guide this class action assault. "We don't go to them, they come to us. They're simply looking for lead plaintiffs," says William Reeves, general counsel to Teachers' Retirement System of Louisiana, a Bernstein Litowitz client in eight recent suits.

Some of the pension plans are motivated by greed, some by ideology. "The thinking was, 'If we can get something for nothing, why not?'" says Coleman Stipanovich, executive director at Florida's state employee pension plan, one of the most litigious funds of the past decade. He took over in 2002 and says this is no longer the case. Something for nothing? Yes, if you believe that the insurance premiums that keep this racket going are paid by the tooth fairy. It would be more accurate to say that the premiums are paid by corporations, and thus, ultimately, by the shareholders who are the supposed beneficiaries o this litigation.

At the Jacksonville [Fla.] Police & Fire Pen sion Fund, a Bernstein Litowitz client, suing bi business for fraud seemed a fitting step. "Ever day our members put people in jail for auto thef and armed robbery. It was logical to leap fron enforcing local laws to going after boardroom bandits," say John Keane, a former cop who is the administrator of th $900 million fund.

The Jacksonville fund is the lead plaintiff in a class action ac cusing Nextcard of underreporting loan losses; it also leads a cas pending against El Paso Corp. Keane has parlayed this into regula speaking gigs, traveling to Bernstein Litowitz investor forums tha also have featured Carl McCall, the ex-comptroller for New York and New York Attorney General Eliot Spitzer, Wall Street slayer.

In other instances pension officials are barely aware they ar suing at all or pay no attention to how much their lawyers ar earning. "I'm not aware of any particular litigation," says Ear Richard, a trustee of the Louisiana School Employees' Retiremen System. Among the five cases in which the $11.6 billion fund ha been a Bernstein Litowitz client recently are those against Lucen Technologies, 3Com and Finova. A trustee for the separate stat teachers' fund says it never occurred to him to ask what share o the court awards goes to the lawyers, though this was a role Con gress clearly wanted fund officials to take on.

Despite its New York roots, Bernstein Litowitz is especiall influential in Louisiana. The state's public pension funds hav retained the firm fo at least 15 class actions Bernstein Litowitz ha contributed more thar $90,000 to Louisiana politicians since 1996. I gave $38,000 last year 83% of its contribution nationally.

The connection goe back seven years to wher Douglas McKeige, heac of Bernstein Litowitz's new-business group, go together with Tulane law school chum G. Anthony Gelderman III to ask for his help ir signing up Louisiana's public pension funds. A New Orleans native and stalwart of the city's elite, he is married to a forme Mardi Gras queen of carnival and resides in the swanky Garder District. Gelderman said he knew little about the new reform ac but could offer good connections. He had been chief of staff anc general counsel to the former Louisiana treasurer, Mary Landrieu, who now is a U.S. senator.

Gelderman, now counsel to Bernstein Litowitz in New Orleans has brought eight Louisiana funds on board and takes a cut of al business generated by his sign-ons. One connection is through Louisiana Treasurer John Neely Kennedy, a trustee for three of the

Pounds of Flesh

Class action lawyers won $3 billion from investors last year and distributed it mostly to the same shareholders—less their own $800 million cut.

Law firm	Securities class action settlements in 2003 ($mil)	Fees and expenses as percent of settlements
Milberg Weiss Bershad Hynes & Lerach	$2,111	30%
Bernstein Litowitz Berger & Grossmann	950	23.5
Grant & Eisenhofer	610	36
Goodkind Labaton Rudoff & Sucharow	551	40
Barrack, Rodos & Bacine	390	35.5

Source: Securities Class Action Services; Verteris Corp.

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public pension funds that are represented by Bernstein Litowitz in a total of 13 suits. Kennedy is running for the U.S. Senate, and last year Gelderman arranged for Bernstein Litowitz partners to attend a fundraiser—in New York—for the Louisiana politician.

Bernstein Litowitz partners and affiliates have contributed at least $24,000 in two years to Kennedy, plus thousands more to Senator Landrieu; Charles C. Foti Jr., the Louisiana attorney general and trustee of one client fund; and Lamber Boissiere, a state senator and director of fou client funds. Bernstein Litowitz's Berger says h contributed to Kennedy as a favor to Geldermar and wasn't even aware the state treasurer is a director of client funds. "I support people think are courageous and support issues important to my business, like litigation that creates accountability," Berger says.

Gelderman says he has "no concerns whatsoever" about the ethics of Bernstein Litowitz funding Louisiana pols who can help it win business. "I had credibility and access, and, more importantly, the firm is the best in the business," he says.

To be sure, the trustees at Kennedy's three funds aren't directly responsible for selecting counsel; they appoint administrators who handle that. The lawyers make contributions anyway. "If a politician approaches them [law firms] and says he's on a fund's board, they don't want to piss 'em off," says Reeves, general counsel to Louisiana teachers' fund.

Bernstein Litowitz, like other firms in the class action field, offers free "portfolio monitoring" to pension-fund clients, tapping into their portfolios electronically and alerting them to potential lawsuits.

One lawyer who works for pension funds in Florida receives e-mails every week from big class action firms prowling for clients, with queries sometimes arriving within minutes of each other after new cases are filed. Florida lawyers get their cut: up to 18%, he says. Such fees are typically described as compensation for work as local liaison rather than purely for referring a client, which violates legal ethics in most states.

The outside counsel to the Jacksonville Police & Fire Fund, Robert Klausner of Plantation, Fla., receives a varying cut of lawyer fees for work on cases he refers to class action firms, on top of a retainer for routine work. Fund trustees seem largely unaware of Klausner's arrangement. "There are a lot of suits we're probably involved in because our attorney [Klausner] is involved in a lot of things," says Barbara Jaffe, a Jacksonville fund trustee and an adviser with Wachovia Securities. Trustee Bobby L. Deal, a lieutenant with the Jacksonville police, says of Klausner: "He's on retainer. If there's any other compensation, I'm not aware of it." Klausner says his pay is adequately disclosed and that it's the job of the fund's administrators to keep the trustees well informed.

Bernstein Litowitz also pays Klausner a sum he won't disclose (and which Berger puts

Money on the Table

You knew this already: In a lawsuit only the lawyers win. Their average cut of shareholder settlements still hums along at 28% of the total award, barely down from 30% when Congress tried to throttle them by passing the Private Securities Litigation Reform Act of 1995. Before the reforms investors got only 7 cents back for every dollar allegedly lost; since then their take has fallen to just a nickel, says Cornerstone Research.

Yet the fees would fall if only big investors would fight them. When New York City officials challenged huge fees in the Cendant settlement, an appeals court agreed and the take was whacked down to 1.7% of the $3.2 billion award. Many times, though, the results are absurd. In a suit against Halliburton, Philadelphia class action firm Schiffrin & Barroway negotiated a $6 million settlement for investors who had owned the stock until May 2002. Subtract the $2 million, or 33%, in fees the law firm is seeking and its lead plaintiff, Private Asset Management, will recover less than $40 of its $800,000 loss.

Expenses can gobble up millions more. In a suit against Enron, Milberg Weiss recently submitted a "partial" reimbursement request listing $1.5 million for photocopying and $866,000 for restaurants, hotels and transportation. All told, expenses among the ten leading class action shops gobbled up 3.8% of shareholder recoveries last year, says Verteris, which tracks such data. Most investors awarded money in class actions never collect it. Only one-third of the big institutions eligible to share in awards actually file to receive them, according to research by James Cox and Randall Thomas, law professors at Duke and Vanderbilt, respectively. They cite poor understanding of the process. What of the money that goes unclaimed? In some cases the investors who do apply divvy it up. In others, insurers never have to pay it out. Some judges even require that it go to charity. The lawyers, of course, get paid regardless. *—N.W. and D.F.*

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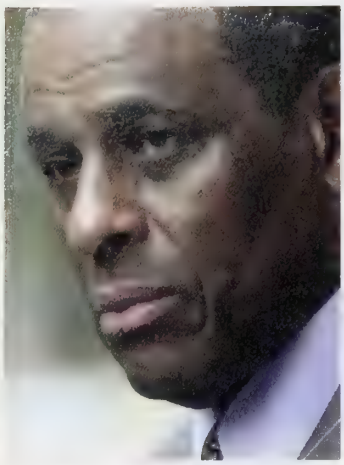
Golden Triangle

Powerful lawyers and the politicians they fund have turned public pensions into Wall Street's latest legal scourge.



H. Carl McCall

As the New York State pension fund's overseer, he kept silent while its outside lawyers stood to earn $10,800 per hour—the same lawyers who later contributed $140,000 to his political campaigns.

Max Berger

Friends in high places and campaign contributions have helped the Bernstein Litowitz partner quietly build the second-biggest class action shop in the law business.

G. Anthony Gelderman III

The New Orleans Brahmin has used political ties to turn Louisiana's pension funds into a profit center for his New York law firm, Bernstein Litowitz.

at up to $30,000) to be the only class action lawyers with access to Klausner's annual powwows of pension officials. The firm will spend a similar sum hosting a cocktail party for fund officials at a Council of Institutional Investors get-together in September. It also cosponsors Guns & Hoses, an annual police and firemen's fund conference slated for San Diego in October.

"You just don't know what pecuniary rewards [fund officials] derive from aligning with a certain law firm," says Duke law professor James Cox. "It can run the gamut from outright corruption down to just feeling important when they call you up and take you to hearings." After the reform act passed, Barrack, Rodos got hired by the Pennsylvania state treasurer at the time, Catherine Baker Knoll, a Democrat. In 1996 she tapped the firm to represent state pension funds. Knoll later received $36,500 in contributions from the law firm. But in 2000 then-governor Tom Ridge, a Republican, concluded that Knoll had overstepped her authority. The Pennsylvania funds have since scaled back their legal efforts. Knoll says through a spokesman that Barrack was selected via competitive bidding.

Barrack, Rodos also has a tight relationship with the Philadelphia Pension Board, a client it wanted to represent in a shareholder case against Network Associates a few years ago. The federal judge in the case demanded to know why the pension board had hired Barrack, Rodos without seeking other offers. It later emerged that the city solicitor wrongly stated he had never received campaign money from the firm—when, in fact, he had.

So the judge ordered the plaintiffs to put the case up for competitive bidding. Rather than go along with that, the city pension board withdrew from the case entirely. When the legal work ultimately was handed out, the winners agreed to charge only a 7% cut of any award rather than the usual 30% or so. A federal investigation into the Barrack-city relationship is pending.

Barrack, Rodos also hired Sara Biden, sister-in-law of U.S. Senator Joseph Biden (D–Del.), in a deal that landed it in court. Sara Biden came on board in 1997 to woo municipal and union pension funds. She flew around on Barrack's own plane and helicopter, landing the lawsuit-happy Florida State Board of Administration and the Communications Workers of America and several other pension funds as clients. All told, Biden argues she generated $96 million in fees for Barrack, Rodos, entitling her to $4.8 million, a 5% cut.

But after Biden found out last year that her boss was paying other go-betweens double the cut she was getting, things got ugly. Barrack claimed she failed to earn the $2 million the firm had already paid her and that she ran up extravagant travel expenses for herself and her family. Neither side would comment; the cases were settled last month for undisclosed terms.

Undeterred, Barrack earlier this year hired for a similar role Regina Calcaterra, formerly a lawyer for New York City's pension system and chief lobbyist for then-city comptroller Alan Hevesi. Congress wanted savvy experts like her to get involved when it set out to reform the class action racket nine years ago. This probably wasn't what it had in mind. F

Building Sustainability

Companies Can Enhance Shareholder Value by Working to Protect Society and the Environment

Sustainable development has become an increasingly urgent topic in many quarters, *but one question* continues to frustrate many who encounter it: *What exactly* does it mean?

By Curtis Rist

Business decision makers must weigh environmental impact along with the best ways to mitigate it.

Defining Sustainable Development

The term means different things to different people. Perspectives vary greatly, from North to South, East to West, between rich and poor, government and the private sector, and even within these various groups. Indeed, the range of views is limitless. Yet rather than nullifying the concept altogether, the varying views of sustainable development highlight the need for consultation and partnership among the many parties involved.

"In that way, everyone has a chance to learn from each other's perspectives, rather than argue their separate cases," says Margaret Flaherty, executive director of the Geneva-based World Business Council for Sustainable Development (WBCSD). The organization is a coalition of 170 international companies united by a shared commitment to sustainable development via economic growth, ecological balance and social progress.

In seeking a specific description of sustainable development, many possibilities leap out. In 1979, for example, James C. Coomer in *The Nature of the Quest for a Sustainable Society* wrote that "the sustainable society is one that lives within the self-perpetuating limits of its environment...and looks for alternative ways of growing." In 1987, the World Commission on Environment and Development defined sustainable development as "the ability of humanity to ensure that it meets the needs of the present without compromising the ability of future genera tions to meet their own needs." And in 1995, David Munr in *Sustainability: Rhetoric or Reality* wrote that sustainabl development "is a complex of activities that can be expec ed to improve the human condition in such a manner tha the improvement can be maintained."

With the further passage of time, a specific definitio of sustainable development has become more elusive tha ever — particularly as it relates to business. What ha emerged in its place, however, is a sense that decision made with sustainable development in mind are thos that consider more than the fate of any particular corpo ration's bottom line. Instead, sustainable developmen requires that business decision makers consider a vast arra of factors, including the world's limited resources, and th impact their decisions may have on the people and the cu tures in a particular region.

Finding the Balance

Where sustainable development is a priority, busines decision makers must weigh the resulting environmenta impact along with the best ways to mitigate it. That mean carefully considering any impact on emerging markets an looking toward the creation of a world at greater harmon with itself — in contrast to the fractious state of affairs that i now common. "If you ask me what sustainable developmen is, there is no one answer because it varies so from compa ny to company, and from business decision to busines decision," says Joe Allen, commercial manager of Caterpilla Inc.'s Remanufacturing Services, which has become a leade in the equipment manufacturing industry by recycling an "remanufacturing" used parts into brand-new condition. "It' up to each manager to be creative in ways that have a pos tive benefit not just for the company, but for the company' customers and for society as a whole. That's where th biggest changes can occur."

The term sustainable development now encompasse some of the most pressing business, social and environmen tal issues on the planet. These can include things such a reducing pollution and limiting water and energy usage. Th term can also be expanded to include problems such as slav and child labor, as well as how to finance small entrepreneur in developing nations. While these problems are extremel important at present, they take on an added urgency with th continuing population explosion. The world population wi increase by some 3 billion people over the next 25 years, wit four out of five people living in developing economies Combined with this is a rapid increase in the number o

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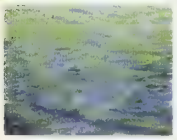
FORGING TRADITIONS OF CORPORATE RESPONSIBILITY

In recent years, corporations around the globe have begun to focus on the challenges of environmental conservation and social responsibility. While many have made strong policy changes that have yielded positive results, the advances made by corporations in Japan have been particularly compelling. Of special interest is the tradition of producing annual reports that focus on progress in key areas of environmental and social responsibility.

On the following pages, the philosophies of some of these companies will be highlighted — companies that include Brother, Canon, Seiko Epson, Ricoh, TEPCO and Toyota. The annual reports produced by these companies (which can be accessed on the company Web sites) detail practices and strategies that achieve results, and can become models that other companies can use to implement changes within their own industries.

BROTHER INDUSTRIES, LTD.
Environmental Report 2004



In a world faced with worsening environmental problems, including global warming and depletion of resources, Brother believes it is a prime requirement to build a corporate structure suited to a sustainable economic society. Consideration for the environment underlies every aspect of the company's operations, through what it calls "The 5 R" key words that guide its activities: Refuse, Reduce, Reuse, Reform and Recycle. In practice, the company "Refuses" by avoiding the purchase of environmentally burdensome materials whenever possible; "Reduces" waste material; "Reuses" waste materials when feasible; "Reforms" company and employee attitudes and values; and "Recycles" in order to reuse materials as resources.

Through comprehensive measures for environmental conservation, including the promotion of Earth-friendly product development, Brother strives to harmonize its business activities with the global environment. To this end, Brother began issuing an annual Environmental Report in 1999. The Fourth Environmental Action Plan, which is designed to promote the company's "5 R" policy to other companies around the world, was initiated in FY2003.

View the report online: **www.brother.com/brother_En/environment_e/report/index.html**

While current corporate strategies in terms of sustainable development may be sufficient for the present day, most fail to anticipate the surge in development that is now occurring worldwide.

market-based democracies — from 22 countries in 1950 to more than 119 2000 — that have created burgeoning markets for food, health care, education a jobs, along with countless products and services. For companies, these new m kets present unparalleled opportunities, as well as enormous risks. While curre corporate strategies in terms of sustainable development may be sufficient for t present day, most fail to anticipate the surge in development that is now occurri worldwide.

One way to better understand the issues corporations must now be concern with is to take a closer look at several companies that are making positive impac in important ways, from recycling and technological improvements to simp changes in company policy that have wide-reaching ramifications. "No o approach is going to solve everything," says Flaherty of the WBCSD. "Instead, it v be the accumulated achievements of individual companies, magnified across t globe, that will ultimately make a lasting difference."

Remanufacturing: Making Sustainable Progress Possibl

Caterpillar Remanufacturing Services, part of Caterpillar Inc. based in Peoria, I is leading the way with its commitment to recycling and environmentally frienc remanufacturing processes. "Our remanufacturing business model is all about rec cling," says Joe Allen, commercial manager. "Our business is to help reduce cos for our customers by recycling products to 'like new' condition. Remanufacturing a great example of where good business and doing the right things for t environment go hand in hand."

Caterpillar Remanufacturing Services has nine facilities and 2,200 employe in the U.S., Europe and Mexico, and is refurbishing 2 million used componen per year. That represents 100 million pounds of material diverted from scr

What kind of hybrid will he drive?

When we introduced the world's first mass-produced gas-electric hybrid car — the Toyota Prius — back in 1997, it was hailed as revolutionary.

Today well over a hundred thousand people have discovered that a hybrid can give them the performance they enjoy, while improving fuel economy and reducing emissions. And since a hybrid recharges its own batteries, it never needs plugging-in.

As the trend toward hybrids gains momentum, we're about to launch more kinds, including a luxury hybrid and a hybrid SUV.

Not only will our new Hybrid Synergy Drive technology benefit a wide range of Toyota vehicles. These same proven hybrid principles will also help the auto industry face the challenges of the future.

HYBRID SYNERGY DRIVE

TOYOTA PRIUS

So when his generation grows up, they'll take hybrid vehicles for granted. The only question will be which one to drive.

TOYOTA

www.toyota.co.jp/en

Sustainable development results from careful consideration of various viewpoints, rather than a single view focused on a company's bottom line.

heaps or landfills worldwide. These products are remanu factured into Caterpillar products that have the same relia bility, durability and warranty as new products at a fractio of the cost. The material that cannot be remanufactured melted down for use in new products or sold to bonde recycling operations that ensure the material is respons bly recycled.

Caterpillar remanufactures one of the broadest ranges products in the industry. These components range from fu injectors to complete engines to transmissions and everythin in between. In addition, Caterpillar Remanufacturing Service looks beyond those products that can be remanufactured include the waste streams they generate. "We look at all th waste streams that are created in the remanufacturin process with a goal of eliminating the waste or creating method to recycle it," says Allen. "Everything from pallet cardboard, packaging, coolant used in tooling — we look at all. We have a culture of trying to reuse or recycle everythin we touch within the remanufacturing process."

Caterpillar's remanufacturing facilities currently recycl between 97% and 99% of all the material they handle th comes to them. Remanufacturing at Caterpillar has attracte attention. The company's facility in Nuevo Lardeo, Mexico, f example, has recently been honored with the "Industr Limpia" (Clean Industry) designation by the Mexican gover ment. This designation recognizes Caterpillar's commitme to conservation and protection of the environment in Mexic

LEARNING THE ARTS OF SUSTAINABILITY

To help corporations understand the breadth of issues involved in sustainable development, the World Business Council for Sustainable Development has developed a Web-based learning tool called Chronos.

Rather than providing a lecture on the topic, the three-hour learning tool allows participants to role play and actively make decisions through the process. The goal is to show that sustainable development results from careful consideration of various viewpoints, rather than a single view focused on a company's bottom line. "If you're building a dam in Mexico, for instance, you may have a very clear idea of how that will affect your company in terms of the bottom line," says Margaret Flaherty, the WBCSD executive director based in Geneva. "But you may not realize there are other points of view that need to be considered, whether those are from archaeologists who claim the dam will disrupt hidden Mayan artifacts, or from trade union representatives concerned about the safety of their workers."

While there is no single set of answers to guide companies on the path to sustainable development, the case studies reveal various pe spectives in order to help people make the most beneficial decisions and cause the least damage. "Whether you manufacture toothbrushes or jet engines, whether you're a purchasing agent for a soft-drink company or the CEO of a defense contractor, the decision you make have an impact that goes far beyond your corporate walls, says Flaherty. "That's one of the key messages we're trying to push."

The tutorial, which is available for a small fee, has already spurre major interest. Shell bought licenses for 10,000 employees, while Mexico's Monterrey Tech owns 15,000. In addition, Pepsi-Co recently had a group of its senior managers take the tutorial. The tutorial's popularity, says Flaherty, lies in the fact that "it introduces people who are not trained in sustainable development to the critical issues they need to address."

Chronos costs $80 for an individual license, but there are significa reductions for bulk purchases. For more information visit **www.sdchronos.org or contact madden@wbcsd.org**.

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To find out more about Caterpillar Remanufacturing Services, email us at:
man_services@cat.com

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CANON INC.

Canon Sustainability Report

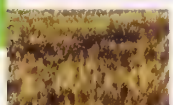
Canon first announced its corporate philosophy of kyosei (literally, living in harmony) in 1988. Since then, Canon has taken the lead in tackling environmental problems. The company's environmental initiatives, including a global recycling program for cartridges, symbolize its efforts to realize the kyosei corporate philosophy.

Between 1994 and August 2002, Canon issued five Environmental Reports (annual publication began with the 1999 edition). For the current 2003 edition of this report, the company decided to move a step beyond the previous edition by creating a broader Sustainability Report that would address additional issues. The result is a comprehensive report for the entire Canon Group. This report includes coverage of the economic and social impact of Canon's activities, and provides a well-organized, clear explanation of the Canon Group's ideas and daily actions regarding global sustainability.

View the report online:
www.canon.com/environment/report/index.html

RICOH COMPANY, LTD.

Ricoh Group Sustainable Report



Ricoh Group published its first sustainability report in 1997 and creates a new edition each year. To promote its own sustainability and contribute to the development of a sustainable society, the Ricoh Group established its Corporate Social Responsibility Division in January 2003. The office supervises all departments involved in activities that aim to fulfill the Ricoh Group's corporate social responsibilities, including environmental conservation.

The 2003 Sustainability Report aims to explain with great clarity the Ricoh Group's specific measures and activities for sustainable management. In order to do so, a "Sustainability Chart" has been developed to evaluate the group's activities and systematically disclose its goals and achievements.

View the report online.
www.ricoh.com/environment/report/index.html

Caterpillar's remanufacturing facilities currently recycle between 97% and 99% of all the material they handle that comes to them.

In 2003 Caterpillar expanded its remanufacturing business to provide remanufacturin services to manufacturers and customers in industries beyond those it already serve including the automotive, industrial and defense products industries. "We're leveragin what we're doing, and making it available to other companies to give them what we ca 'off-the-shelf sustainability,'" says Steve Fisher, general manager for Caterpilla Remanufacturing Services. "Using our services, they can start a remanufacturin program or improve an existing one by leveraging the scale and technology we'v developed over the last 30 years. It's a win-win situation all around, for us, the comp nies we serve, our shareholders and, of course, the environment."

Building the Automobile of Tomorrow

Mobility comes at a considerable cost to the environment, since most forms transportation in the developed world rely on petroleum fuel. Toyota is one of se eral vehicle manufacturers working to counter this problem through the develo ment of advanced engine technologies.

In 1993, Toyota began the design of a car that would have less impact on the env ronment. This so-called hybrid car — the world's first — which featured an advance electric motor as well as a highly efficient gasoline engine, was unveiled in Octob 1995. Technical issues, such as battery performance and power source managemen required further improvement, and in 1997 the Prius hybrid car was introduced to th market. Now sold worldwide, the Prius looks like a conventional car and comes wi a similar price tag. Compared with conventional cars, however, it achieves twice th fuel economy and releases only half the carbon dioxide and one-tenth the carbo monoxide, hydrocarbons and nitrous oxides.

EPSON

As business gets bigger, the world gets smaller – so corporations are developing more and more innovative methods to protect our collective natural resources.

At Epson, environmental awareness and preservation is an important part of our corporate mission statement. And we've put it into practice in some significant and imaginative ways.

For example, in America, we offer customers a way to recycle old Epson hardware for a nominal handling fee, while giving them a credit they can use on new Epson products. It's one of the most generous recycling programs in the printer industry.

Since 2000, our factory in Portland, Oregon has sent no waste to the landfill. Instead, we've converted that waste, 567 tons of it, into energy. What's more, 10% of the factory's electricity is wind-generated – cutting down its dependence on fossil fuels.

We're also concerned about regenerating local resources. Our facility in El Paso is heading up a program to replant and care for new trees along the Rio Grande River, since much of it has become a barren desert.

These accomplishments are just part of Epson's global environmental efforts, and we're proud of each and every one. But there's still much work to do. It's a responsibility we happily embrace, for the good of the business community, our customers and the planet.

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SEIKO EPSON CORPORATION

Sustainability Report: An Overview of Corporate Environmental and Social Initiatives

Seiko Epson encourages sound environmental practices based on a philosophy that aims to achieve coexistence between business and the global environment. To fulfill its responsibilities as a corporate citizen, the company reports regularly on both its environmental and social responsibility initiatives in a formal report, including the most recent one for 2003. The highest priority is placed on providing a vital and reader-friendly report that best meets the uncompromising standards of the company's diverse stakeholders. In creating policy, the company has relied on The Japanese Ministry of the Environment's Environmental Reporting Guidelines as well as the Global Reporting Initiative's Sustainability Reporting Guidelines (2002).

The report's readability has been enhanced by the following distinctive features:

- A timeline of environmental and social responsibility initiatives. Because this was its first sustainability report, the company has traced its entire history of activities. This allowed Seiko Epson to take stock of past initiatives and to assure that it is pursuing the proper path to earning the complete confidence of stakeholders.
- Personal experiences of Epson employees in their pursuit of environmental and social performance.

View the report online: **www.epson.co.jp/e/images/community/PDF/2003report_e.pdf**

TOKYO ELECTRIC POWER COMPANY (TEPCO)

TEPCO Sustainability Report

Since 1992, TEPCO has issued an annual report that focuses chiefly on the company's environmental protection record, but also includes efforts aimed at economic efficiency and social responsibility. Different aspects vital to the health of the planet, such as Environment, Economy and Society, are also arranged together in what is called the Integrated Section. This details the company-wide efforts that are aimed at attaining specific goals.

The report also publishes opinions issued by the TEPCO Advisory Committee on Environmental Affairs (which is comprised of outside experts as well as academic specialists) on TEPCO's environmental record and business activities in general. The reliability of the environmental indicator data within the report has been verified by an independent body, whose results are also published.

View the report online: **www.tepco.co.jp/en/env-com/[illegible]/Index-e.html**

Mobility comes at a considerable cost to the environment, since most forms of transportation in the developed world rely on petroleum fuel. Several vehicle manufacturers are working to counter this problem.

Ford Motor Company has continued on this pathway with the development of the new Escape Hybrid sports utility vehicle (SUV), which was recently introduced in the U.S. The Escape Hybrid ranks as the first hybrid SUV, and even comes with four-wheel drive off-road capabilities.

"Our vision for Ford Motor Company's next 100 years is to build great products, a strong business and a better world," says Ford Chairman and CEO Bill Ford, Jr. "The 2005 Escape Hybrid is the embodiment of this philosophy. We are leading the hybrid effort with a clean, fuel-efficient, fully functional SUV. Escape Hybrid is an important part of our strategy for sustainability in vehicles and manufacturing."

The Escape Hybrid reinforces Ford Motor Company's no-compromise approach to environmental responsibility. It combines near-zero emissions and the fuel economy of a full hybrid-electric system with the go-anywhere capability, toughness and cargo capacity of the Ford Escape, America's best-selling compact SUV. The Escape Hybrid is expected to be the world's cleanest, most fuel-efficient SUV, certified by the EPA to provide 36 miles per gallon — more than a 75% improvement over the conventional Escape — in stop-and-go city driving, where the benefits of its full hybrid powertrain clearly outpace the fuel efficiency of even the smallest conventionally powered cars.

Tailpipe emissions such as unburned hydrocarbons (HC) and oxides of nitrogen (NOx), as well as evaporative emissions from the fuel system, are low enough to qualify the 2005 Escape Hybrid for the stringent Advanced Technology Partial Zero Emissions Vehicle (AT-PZEV) standards, says Mary Ann Wright, director of Sustainable Mobility Technologies and Hybrid Programs and chief engineer of the Escape Hybrid. The Escape Hybrid produces as little as half the amount of carbon dioxide (CO_2), a primary "greenhouse gas" resulting from the combustion of any

We pursue our original environmental vision based on a thorough analysis of the life cycle of all our products.

non's environmental vision sets a numerical goal. e aim for maximization of resource efficiency as the ndation of our many environmental activities, seeking to uble our 2000 efficiency by 2010. To achieve this "Factor 2" jective, we continuously introduce useful, beneficial oducts that minimize environmental impact throughout eir life cycles, from raw materials and parts production to ocessing of used products. In fact, Canon already markets any products that contribute to energy saving, resource nservation, and elimination of hazardous substances.

As a company dedicated to *kyosei* – a philosophy of living and working together for the common good – Canon continues to take challenges to help create a society based on sustainable development. www.canon.com/environment/

A selection of Canon products designed to minimize environmental impact

Canon

One often overlooked value for companies that work toward achieving sustainable development is prestige.

type of carbon-based fuel, compared with a conventional compact SUV.

Performance has not been sacrificed, either. Thanks to clever technology, full battery power is available without having to plug the vehicle into an electrical outlet. The electric motor-generator captures energy during braking, and the gasoline engine also delivers power to the nickel-metal hydride battery (a much more powerful version of the reliable batteries used in cell phones and portable computers) when necessary.

At the same time Ford is working to minimize the environmental impact of the vehicles it produces, the company is pursuing innovative solutions in manufacturing. The refurbished Ford Rouge Center complex in Dearborn — which has the world's largest "living roof," the nation's largest porous parking lot and special wetlands that cleanse storm water runoff — is an example of how a vast manufacturing complex can improve environmental quality.

Sustainability in Action

Other business projects that represent sustainable development achievements and have been cited for excellence by the World Business Council for Sustainable Development include:

• **Coca-Cola's Entrepreneur Development Program:** In conjunction with local bottling companies, Coca-Cola has developed the Entrepreneur Development Program in South Africa to help new entrepreneurs enter the supply chain and profit from new sustainable business ventures.

The program specifically targets microentrepreneurs in undeveloped markets who can enter the Coca-Cola valu chain to generate income and profits for themselves. In tota over 7,000 people have been trained under this program. 2000 Coca-Cola created 5,000 new outlets, 3,500 of whic were by participants in the Entrepreneur Developme Program, resulting in the creation of 12,900 jobs in the Coc Cola system.

• **Deutsche Bank's Microcredit Development Fund:** Fro rural villages in Asia to urban centers in the United State small loans to emerging entrepreneurs create opportuniti for self-employment and dignified lifestyles for millions. Wi microcredit, loans are given to those who need them most the poor at the grassroots level. Such loans would not be po sible without microcredit, as these people are unable to me the requirements of traditional banking practices that call f collateral or previous credit experience.

Microfinance has established itself in recent years as on of the most effective weapons in the fight against povert Providing unsecured microloans of typically US$100 to th world's poorest institutions, such as the Grameen Bank Bangladesh, has enabled literally millions to rise above th poverty line. Moreover, such institutions operate profitab and often have repayment rates higher than commerci banks. For the past few years, the Deutsche Bank Microcred Development Fund has been working to assist such instit tions by providing capital and technical support.

• **Ontario Power and Gas's New Power Options:** Enviro mentally preferable electricity choices are now available to mar people in many countries. However, customers are not alway

ALL HYBRIDS ARE NOT CREATED EQUAL.

HYBRID

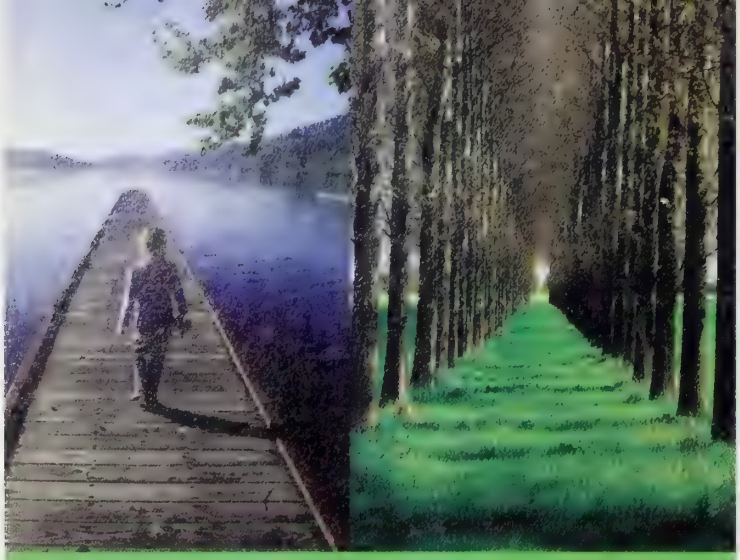
Unlike the competition's mild hybrids, which always require power from the gasoline engine, full hybrids – like the new Ford Escape Hybrid – have the ability to drive in electric-only mode at certain speeds. That means less trips to the gas station. 61% fewer smog-forming pollutants. 80% better fuel economy.* In fact, this SUV is the most fuel-efficient SUV out there. No, all hybrids are not created equal. On the road to a better future, some are born to lead the way. Fordvehicles.com/escapehybrid.

Ford

ESCAPE HYBRID

Earth's First Full Hybrid SUV.

*Improved fuel economy and emissions data compared to Escape gasoline engine. Escape Hybrid EPA estimated 36 city/31 hwy mpg, front-wheel drive. Your actual mileage will vary depending on your driving habits.



Reputation and brand value take a great deal of time to achieve, and today, sustainable development leaders in the corporate sector are being recognized in a number of ways, from awards to high rankings in socially responsible investment indices.

as enthusiastic as energy companies feel they should be. Cos can be prohibitive, and there may not be enough informatic available on benefits and availability. Ontario Power Generatior (OPG) strategy is to lead the development of green power Ontario. The company has created a new operating divisio OPG-Evergreen Energy, that will invest $50 million (Canadian) 2005 to expand OPG's capacity in wind, solar, biomass and sm hydroelectric power. This strategy will allow OPG to align its su tainable energy development objectives with new commerc opportunities in the emerging competitive market for gree power and services.

OPG expects that consumers who share its commitment sustainable development and climate-change management w embrace opportunities to buy green power. At the same tim OPG recognizes that green power will have to compete wi conventional power on availability and price. OPG is structurir green power offerings to balance affordability and availability wi customer preferences for some of the more expensive sourc such as wind and solar.

Looking Forward: Expo 2005

The theme of sustainable development has reached crescendo, and one example of this is the coming 20

TOYOTA MOTOR CORPORATION

Environmental & Social Report

For Toyota, environmental actions are one of the top-priority issues for sustainable corporate management, as well as one of the most active areas for the company to fulfill its responsibility to society. In this context, the company began issuing an annual environmental report beginning in 1998.

In 2003, the title of the report was changed to "Environmental & Social Report," to reflect the increased scope of information being disclosed. As such, the report is quite complete, with an Environmental Aspect chapter that encompasses Environmental Management, Development and Design, and Procurement/Production/Logistics. The relationships with stakeholders are reviewed in the Social and Economic chapter, and the report also offers comprehensive data on numerous other aspects of sustainable development.

View the report online: **www.toyota.co.jp/en/environmental_rep/03/index.html**

THE KYOTO PROTOCOL – AN UPDATE

What has become of the Kyoto Protocol on climate change?

Since the United States voted against ratifying the proposed international treaty to reduce Greenhouse Effect Gas emissions worldwide, the Protocol has languished. Now, the future of the treaty lies in the hands of Russia — which had voted against it, bu which appears increasingly likely to change its vote and approve the Protocol. The Russian announcement, if it comes, is expected to be made at the World's Climate Chang Conference in Buenos Aires in December.

If Russia does ratify the Kyoto Protocol, the treaty would enter into force for all developed nations, including the U.S. According to the U.N. Climate Change Committee, almos 200 countries have ratified the Rio de Janeiro document, drawn up in 1994, which gave rise to the Declaration of the Protocol of Kyoto in Japan in 1997. The Protocol proposes t fix targets for reduction in "greenhouse" emission levels for 42 nations — including the U.S. — between 2008 and 2012, relative to 1990 emission levels.

To become binding, the Kyoto Protocol has to be ratified by at least 55 countries taking part in the Convention, including developed countries responsible for at least 55% of tota emissions out of the total.

To date, the Protocol has been ratified by 122 members, but the developed nations that have signed account for only 44.2% of total emissions. If Russia agrees, the quota would be exceeded — and the Protocol would enter into effect.

Where would you aim?

The real trick is to hit three targets at once. It's a skill that has served Ricoh well as we have become one of the leading providers of digital office equipment.

Our targets: planet, people and profits. We call them the "Three P's Balance™" because we believe corporations must balance all three in order to enjoy continuous growth and development.

Sustainable management is in the "Three P's Balance™."

We aim to protect the planet's fragile equilibrium–a state where the natural environment is able to restore itself–by setting long-term environmental goals both at our production sites and in our product development. These goals embrace the conservation and recycling of resources, the conservation of energy, and the prevention of pollution.

At the same time, we actively serve people through a commitment to Corporate Social Responsibility (CSR). Being proactive rather than simply reacting to rules and regulations is one aspect of this commitment; encouraging all employees to be environmentally and socially aware is another. By meeting and exceeding the requirements of CSR, we aim to contribute to a greater sustainable society.

And, of course, we never lose sight of profit. After all, a company that is thriving financially is in a much better position to share its ideas, energy and dedication to making the world a better place.

Ricoh is ranked among the world's leading sustainability-driven companies.

Member of Dow Jones Sustainability Indexes 04

How well do you share?

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EXPO organizers hope to begin creation of a global society that will allow the multitude of cultures and civilizations to coexist.

World Exposition in Aichi, Japan. With its theme of "Nature's Wisdom," the event — which will run from March 25 through September 25 — will focus on people working together in the pursuit of a sustainable and harmonious coexistence for all life on Earth. Paramount to this is a global perspective, reflected by the fact that more than 100 nations and international organizations supporting this theme will be participating in the EXPO.

By focusing on the vast collection of knowledge and methods of interaction with nature found around the globe, EXPO organizers hope to begin creation of a global society that will allow the multitude of cultures and civilizations to coexist.

"As a result of human society enjoying free rein over the planet for many, many years, we have reached a point where our harmful effects on the environment can no longer be ignored," says Harumi Sakamoto, the secretary-general of EXPO 2005. "Having entered a new century, we need to reevaluate how we treat the environment and focus on how we can learn from the wonderful schemes of nature in our pursuit of answers to help solve the problems facing mankind."

In this, the EXPO itself has been designed as a model for sustainable development. At the site, new types of clean energies, pollution-free transportation systems and various cutting-edge environmental technologies will be exhibited at pavilions. These will send a meaningful message to those developing nations seeking to strike a balance between economic growth and environmental issues, Sakamoto believes.

"Already being unveiled in the industrial world is a new typ of 'product manufacturing,' where harmonization with th environment is regarded as a new business opportunity," sh says. "We place our hopes on the EXPO becoming a trigger accelerating these industrial activities and helping to exter them to the rest of the world."

What will be an even greater catalyst for genuine chang she says, is the simple fact of people meeting and comir together to create a discourse that goes beyond words achieve mutual understanding and respect. EXPO 2005 will b just the place for this vital, multicultural exchange.

The Prestige of Progress

One often overlooked value for companies that work towa achieving sustainable development is prestige. By achievir success in this area, corporations will be able to demonstra environmental and social stewardship, showcase valuab new technologies and processes, and urge others to follo their lead.

Reputation and brand value take a great deal of time achieve. Today, sustainable development leaders in the corp rate sector are being recognized in a number of ways, fro awards to high rankings in socially responsible investme indices.

"It's a real value, and one worth considering for any comp ny," says Flaherty of the WBCSD. "By making a differenc today, you can magnify your importance — and your comp ny's value — tomorrow."

Nuclear Power for Global Sustainability

How can TEPCO (The Tokyo Electric Power Co., Inc.) make a meaningful contribution to the global environment?

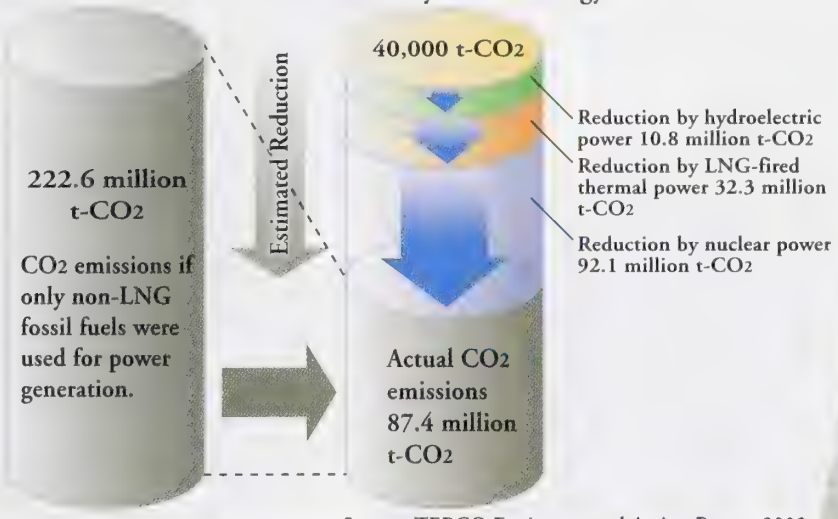
The mission is clear: CO_2 emissions must be reduced, while maintaining a stable and secure electricity supply to about one third of the population of Japan, the world's second largest economy and fourth largest energy consumer. The answer is nuclear power generation.

Environmental Contribution

Nuclear power generation does not emit CO_2, nor any air-polluting substances such as SOx (sulfur oxide) and NOx (nitrogen oxide). While placing safety as its top priority in running its nuclear plants, TEPCO is active in reducing CO_2 by taking full advantage of nuclear power generation features. Through its use, TEPCO estimates it has curbed its CO_2 emissions by approximately 90 million tons annually, in comparison to the case scenario where its entire power generation had relied on oil-thermal power facilities.

Volume of CO_2 emissions curbed through the use of non-fossil energies, etc.

Reduction by natural energy



Source: TEPCO Environmental Action Report 2002

Long-term benefits

Nuclear power generation also offers a comparative advantage in terms of long-term fuel supply: nuclear fuel can be recycled and re-used by extracting plutonium and uranium from spent fuel.

Cost Efficiency

Another significant advantage of nuclear power generation is its cost efficiency. Low fuel cost enables lower operation costs compared to other power generations.

These photos were taken at TEPCO's Kashiwazaki Kariwa Nuclear Power Station (Niigata Prefecture) by famous naturalist Hiroshi Sasaki, who was struck by the beauty and purity of the natural environment preserved at our plant site, 70% covered by greens. These wildlife creatures are symbols of our serious commitment to the betterment of the global environment.

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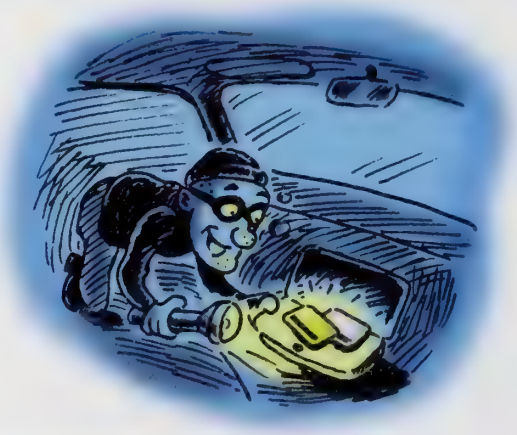

1 Guard your trash from theft by shredding documents and receipts. Thieves can build an alternate identity using the mail you throw away.

2 Don't leave credit cards in glove compartments. (Glove compartments account for thousands of credit card thefts.)

3 Always check your monthly statements. (Criminals will sometimes make a small purchase first, to see if it goes undetected, before making a big one.)

4 Notify the post office immediately if you change your address. Mail going to your old address can end up in the wrong hands.

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Kei-Ichi Enoki, a founding father of the mobile Web, is moving beyond e-mail and games to make the phone a remote control for living.

Super Phone

BY BENJAMIN FULFORD

MAMORU TSUKADA / ARIA PICTURES FOR FORBES

WALK THE STREETS OF NEW York, Seattle or Chicago and it seems like every other person is gabbing on a cell phone. That's not the case in Tokyo, though cell phones are far more prevalent. In Japan people don't talk on their mobiles so much as stare into them, surfing the Internet with a mobile link seven times as fast as dial-up access.

While high-speed mobile computing is still in its infancy in much of the world, it's already a multibillion-dollar business in Japan. For that you can thank Kei-Ichi Enoki, an executive vice president at NTT Docomo, the country's biggest cellular carrier. All that silent surfing bears watching because gadgetry has a habit of migrating east from Japan.

Enoki is the driving force behind NTT Docomo's I-mode service. I-mode has 41 million subscribers, a third of Japan's population, making it the world's most advanced and popular mobile Internet provider. I-mode generates $10 billion in revenue for NTT Docomo, with another $1.5 billion going to the more than 2,000 unaffiliated companies that sell services like games, news and music downloads from 4,500 Web sites accessible by Docomo subscribers. Mobile e-commerce, still nascent even here, already pulls in another $1 billion a year (new high-definition color screens have made mobile pornography a big hit).

Now Enoki, 55, is pushing I-mode beyond its mobile e-mail and Net-surfing roots into territory unexplored by the rest of the world.

"Mobile phones are going to become personal controllers for anything humans come in contact with. They will control the TV set and other electronic equipment. They will let you into the subway system, act as corporate ID, replace money when shopping, turn on your car and interact with anything else humans deal with," he says. He is something of a gambler (he's a *pachinko* slot machine fan) as well as a visionary who happens to have been right about what the market wanted.

"Mobile phones are going to become PERSONAL CONTROLLERS FOR ANYTHING humans come in contact with."

The latest mobiles, on sale for $200 to $300 in Japan, function as wallets, letting people pay their utility bills or buy movie tickets by putting a handset near a reader. The phones use a Sony circuit card that communicates wirelessly with the reader and deducts the right amount from a stored-value card inside the phone. New I-mode phones also have a bar-code-reading camera that people can point at the bar code on a magazine or poster, taking them straight to a Web site with updated and detailed information on, say, a concert or a discount sale. The handsets can accept memory cards up to 1 gigabyte in size, take pictures and video, play music—and yes, let you talk to someone else.

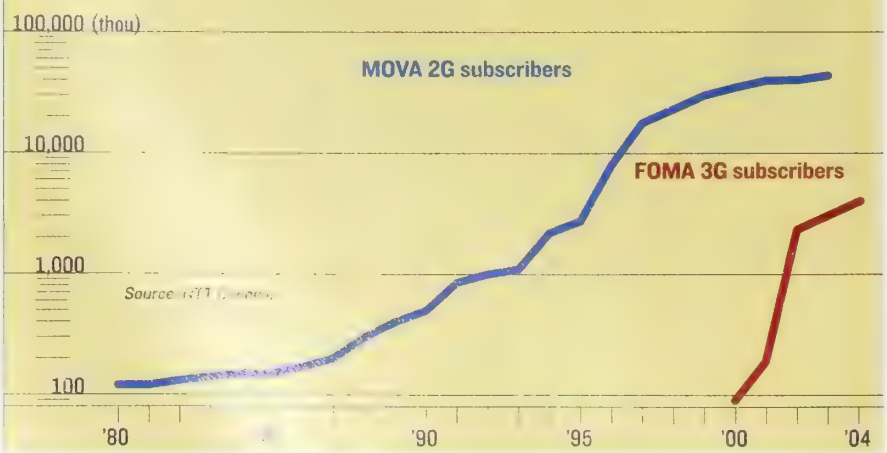
The key to I-mode's success has been Enoki's decision to adopt widely used Internet standards like TCP/IP and HTML rather than forcing a set of new Docomo standards on the world. And Docomo has cheaply licensed the I-mode system to carriers in Taiwan and seven European nations, including Germany, with service beginning soon in Australia. "Consumers don't care about standards," says Enoki. "It does not matter so much if it runs on Wi-Fi or some other technology; what matters is the content and the services."

Three years ago I-mode became one of the world's first third-generation mobile services, offering download speeds of up to 384 kilobits per second. The initial rollout stumbled on clunky handsets with poor battery life and limited coverage, but now the 3G service, called Foma, has 5.3 million subscribers paying $30 per month on average, compared with $20 for the older service. Its stalled start has forced Enoki to catch up to rival KDDI, which already has 15 million customers on its high-speed network. There have also been some unexpected disappointments. Mobile videoconferencing has not become the killer application as hoped. People do not like squinting at each other on tiny screens while their expensive data minutes tick away.

The bigger worry, though, is from the very Internet technologies Enoki did so much to disseminate. Softbank has announced plans for a rollout of mobile Internet phones, offering wireless at what will be a fraction of its usual cost. That could devastate NTT Docomo's economics, since it still gets 67% of its revenue from old-fashioned voice minutes. The more Enoki can glue his customers to their screens, the less likely they'll be to switch just to save money. "These handsets will be universal life controllers," he says. F

Docomo Rising

The cell phone, not the PC, delivers the Internet to most Japanese. Docomo's I-mode service, already a huge hit, is rapidly building up its newer high-speed Foma service.



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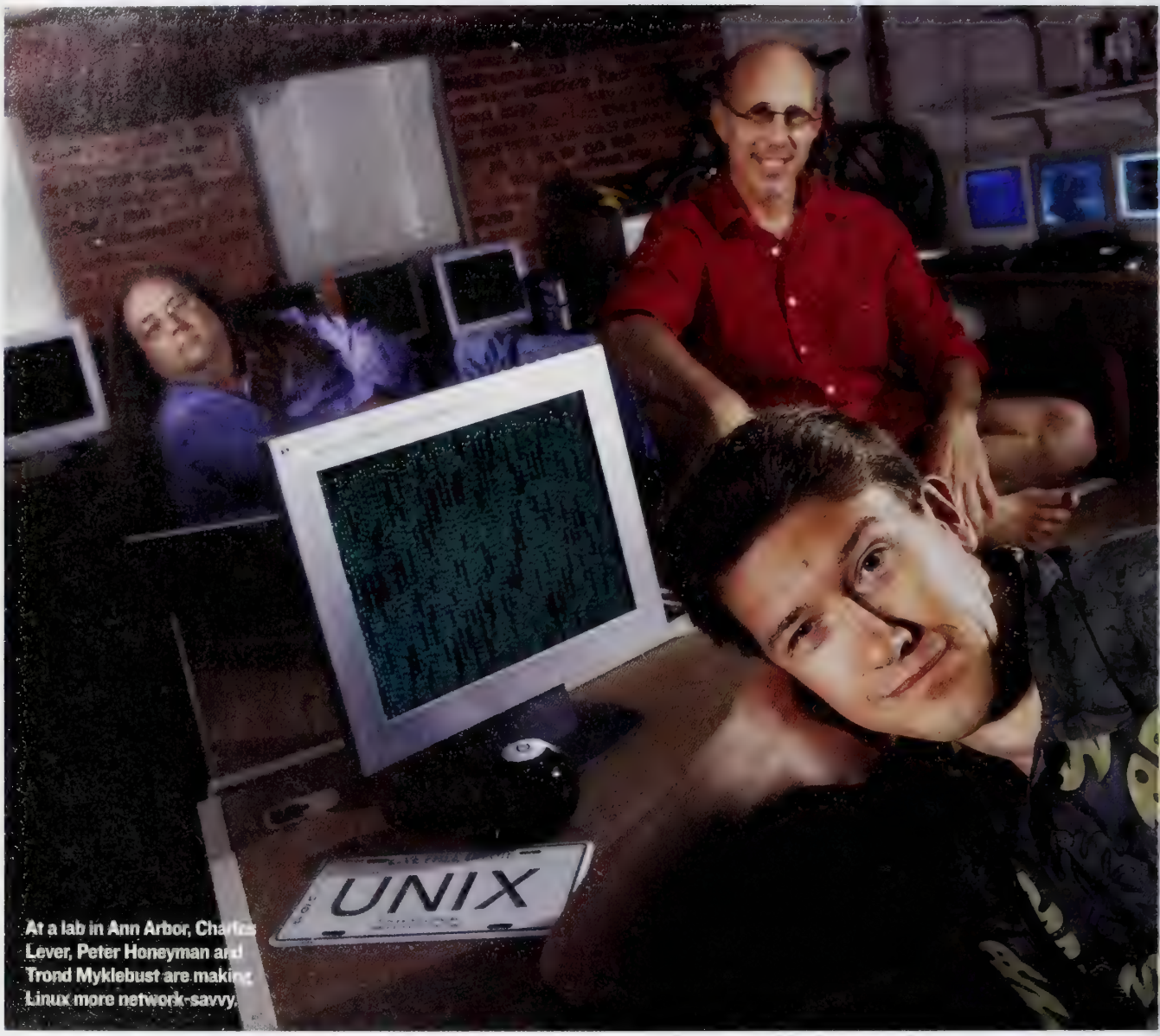

At a lab in Ann Arbor, Charles Lever, Peter Honeyman and Trond Myklebust are making Linux more network-savvy.

Peace, Love and Paychecks

Linux began as a labor of love by hippies and hackers. Now the suits are cutting checks and running the show.

BY DANIEL LYONS

TROND MYKLEBUST HAS NO experience designing data storage devices and has never studied computer science, and yet, for the past year this affable 35-year-old graduate student in particle physics at the University of Oslo in Norway has been collecting handsome monthly stipends from Network Appliance, a Silicon Valley company that makes data storage boxes.

NetApp, as the company is known, has also flown Myklebust to the States for extended visits, arranged his visas, paid his expenses, rented him an apartment and set him up in an office at the University of Michigan. The firm also flies him to headquarters in Sunnyvale, Calif., where he is treated to sushi dinners and stays in the home of one of NetApp's

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senior technologists.

Why the VIP treatment? Myklebust is one of the chief lieutenants to Linus Torvalds, creator of the grassroots Linux operating system, and he oversees development of a crucial bit of code that controls how Linux-based computers share files with other machines. For NetApp, whose boxes need that 35,000-line chunk of code to interact with Linux computers, the chance to gain favor with Myklebust is worth dishing out a few perks.

By funding Myklebust and the Michigan computer lab, NetApp can influence Linux development and ensure that its storage boxes, called filers, work smoothly with Linux computers. It's like having the head of props for a movie studio on the payroll of your consumer brands company. "Linus wouldn't let NetApp create features for Linux. So we befriended Trond. He is the vehicle to let our company influence Linux," says Daniel Warmenhoven, chief executive of NetApp.

"What's in it for [NetApp] is sales; it can sell into the Linux market. This is not about philanthropy. There is plenty of mutual benefit going on here," says Peter Honeyman, scientific director of the lab where Myklebust works, which receives $192,000 a year from NetApp.

This pay-for-play arrangement may be standard operating procedure among high-tech companies and academic labs, but it represents a big change for Linux, which first gained favor among hippie-esque programmers who disdained revenue and profit, advocating a "peace, love and software" vision of Linux as a free operating system developed without regard for corporate interests.

"This is not about philanthropy. There is PLENTY OF MUTUAL BENEFIT going on here."

Linux is not developed by any single company. Instead, its creator, Torvalds, harnesses the creativity of thousands of programmers around the globe, who contribute their code free.

Though Linux was first used by hobbyists, it now runs in data centers of big companies like Charles Schwab & Co. and Sabre Holdings. And though some Linux zealots still consider themselves part of a quasi-religious movement, these days Linux is looking a lot like any other technology product, even those made by Microsoft, the company Linux wonks hate most.

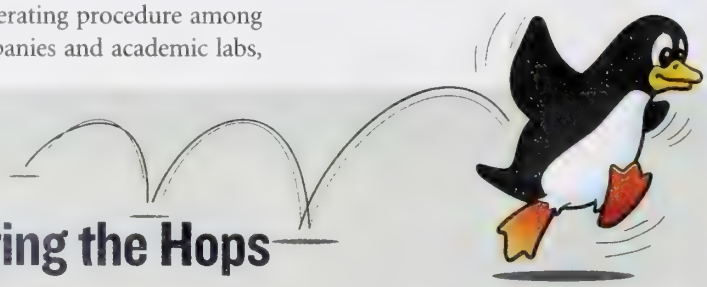
"Linux has changed," Myklebust says. "Most of the big players in the community are now directly employed or sponsored by businesses who are pushing some agenda. That's more or less accepted these days."

Despite his close ties to NetApp, Myklebust insists he gives NetApp no special favors. He says he still feels free to reject any code NetApp submits, though he also points out that working so closely with NetApp means he can suggest ways it might change its code to make it pass muster. "They bounce ideas off me, to find out how I prefer to have things done," is how he describes the process.

Even Torvalds, the young Finnish programmer who created Linux in his college dorm room in 1991, now collects a paycheck from a Beaverton, Ore. lab funded by Hewlett-Packard, IBM and others. Torvalds' second-in-command, Andrew Morton, works there. Other "maintainers," or developers who have primary responsibility over different parts of Linux, have been scooped up by HP, IBM and Red Hat. Torvalds says it's like Lance Armstrong being paid to train and race. "Linux developers have picked up sponsors," he says via e-mail.

Big companies pick up the tab for Linux development because the system helps them sell hardware and consulting services. HP claims $2.5 billion in Linux-related revenue in 2003, while IBM claims $2 billion. Red Hat, which distributes a version of the Linux operating system, generated $125 million in revenues last fiscal year and carries a market value of $2.3 billion. Last year sales of Linux servers grew 48% to $3.3 billion, and by 2008 Linux server sales could approach $10 billion, according to market researcher IDC.

NetApp, which does millions of dollars in Linux-related sales, got dragged into doing Linux development because its customers started using Linux on their computers and having problems. Moving files between Linux computers and NetApp filers was slow and difficult. The problem had nothing to do with a flaw in NetApp's boxes; it resided in Linux, which used a poor implementation of a



Counting the Hops

Like Network Appliance, many top tech firms are snapping up Linux programmers, hoping to influence the way the operating system evolves. The trick is to hire programmers closest to Linux creator Linus Torvalds. Torvalds oversees Linux development, but he delegates pieces of the system to the 25 or so code maintainers, like Trond Myklebust at NetApp. Maintainers in turn break their projects into smaller pieces, overseen by submaintainers.

Hewlett-Packard, which has hired two maintainers and 100 lower-level Linux developers, tries to hire only people who are within reach of Torvalds' inner circle. "I call it 'counting the hops,' which means we figure out how many steps removed this person is from a top maintainer. I try to keep it under two hops," says Martin Fink, vice president of Linux at HP. "The way to get stuff done in the Linux community is to hire the right people." —*D.L.*

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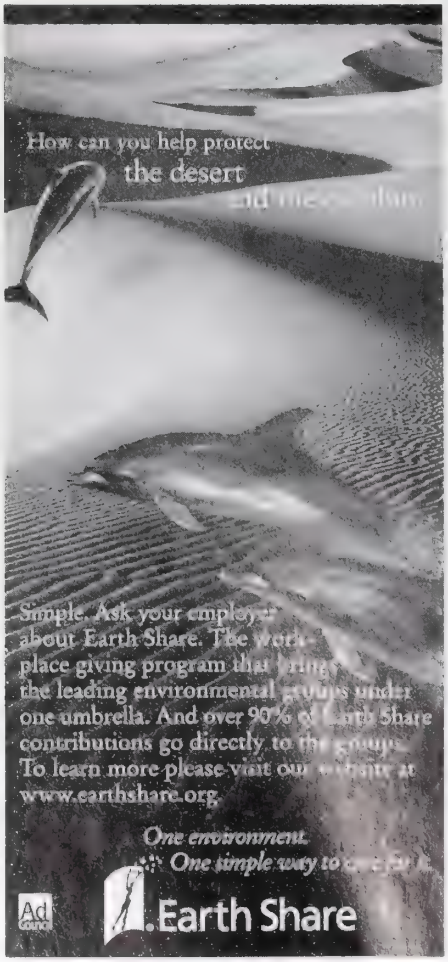

file-moving technology called Network File System, or NFS, which was created in the 1980s by Sun Microsystems.

Customers who needed help didn't complain to Torvalds; they called NetApp. "In 1998 and 1999 we started getting an eruption of support calls," recalls Brian Pawlowski, vice president of engineering at NetApp.

Luckily, Pawlowski knows more about NFS than almost anyone else on the planet, since he was part of the group at Sun that created it 20 years ago. In the late 1990s David Hitz, a NetApp cofounder and chief of engineering, had lunch with Linus Torvalds and told him that NetApp would gladly fix the NFS implementation in Linux. Torvalds turned him down. Says NetApp Chief Warmenhoven: "His answer basically was, 'No. I don't trust companies, I trust people. The person I trust on this is Trond.' Dave came back from that lunch and I said, 'Wow, that's wild, how are we going to deal with this? It seems strange. Why would anyone reject the world's top experts?'"

So Pawlowski and his guys would have to submit their "suggestions" to Myklebust, who would accept or reject their ideas alongside submissions from volunteer hackers from around the world.

NetApp found a way around the roadblock using a time-tested Silicon Valley method: Start spreading money around. In 1999 NetApp began funding the University of Michigan's 18-year-old Center for Information Technology Integration (CITI), where a lot of Linux NFS development was taking place. In 2001 NetApp hired a developer, Charles Lever, who already worked out of the CITI lab in Ann Arbor. Finally, in 2002 NetApp started paying Myklebust a stipend, set him up with an office in the lab and a company-paid apartment in Ann Arbor. In 2003 Myklebust returned to his studies in Norway and left the payroll for six months but came back to NetApp.

Landing a Linux insider like Myklebust was a coup for NetApp and CITI, Honeyman says. "Trond sits at the right hand of Linus. Nothing gets into Linux unless Trond says so. He's the funnel, the gatekeeper. He has the magic wand. And he's sitting right here with us."

Today, in addition to paying Myklebust's stipend and expenses, NetApp pumps $16,000 a month into the CITI lab, including support for one of Honeyman's graduate students, who is pursuing a doctorate. "In total we're spending several hundred thousand dollars a year," Pawlowski says.

NetApp, which earned $152 million on sales of $1.2 billion in the recent fiscal year, can afford the outlay. The payoff is real. Linux now contains bits of code written by NetApp's programmers. More important, developers at CITI are using NetApp filers as the basis for their software design and optimizing their code for those boxes, which may already be giving NetApp an edge in Linux installations. So far it has won business it wouldn't have otherwise at Oracle, Pixar, Southwest Airlines, ConocoPhillips and Weta Digital, the effects studio behind *Lord of the Rings*.

Myklebust has abandoned his quest for a doctorate in particle physics. He says he's having too much fun doing Linux development, and he enjoys living in the U.S. What's more, he's found a great job in the computer industry, thanks to an American company whose top-notch immigration lawyers moved mountains to get him an H1-B work visa, overcoming immigration officials' objections that Myklebust lacked any formal computer education. Starting in October Myklebust will become a full-time employee at Network Appliance. F

"Most of the big players in the Linux community are now employed or sponsored by BUSINESSES WHO ARE PUSHING SOME AGENDA."

WHERE IN THE WORLD IS

Over 85 million U.S. homes

ajor hotel chains
cluding Marriott, Hilton, and Hyatt)

Colleges and Universities

Wal-Mart stores for breaking news

Radio Stations from coast to coast

Military bases

Italy Maldives
Papua New Guinea
Scandinavia Poland
Romania Russia Spain
United Kingdom Australia
Brazil Colombia Costa Rica
Thailand Turkey Japan Belize
Dominican Republic Kyrgyz Republic
Venezuela Korea Uzbekistan Israel
Indonesia Pakistan Mexico Guatemala
Kazakhstan The Netherlands New Zealand
Korea Taiwan India Nauru Palau Panama
Philippines Singapore Hong Kong Saudi Arabia

EVERYWHERE!

by Stephen Manes

iPods for the Eyes

APPLE'S STEVE JOBS HAS KISSED OFF PORTABLE VIDEO players as being "twice as heavy as an iPod and twice the size of an iPod ... and twice as expensive as an iPod." What he neglects to mention is that they can do more than twice as much as an iPod.

The latest video players can lighten your train commute with movies you missed on TV, amuse the kids with a vast storehouse of cartoons and bore your relatives with family photos and videos—or just play music. The big batteries can last more than four and a half hours with video, twelve if you turn off the screen while you listen to tunes. Tinny external speakers let you share the experience without passing the headphones.

Two new units I tried show that there are very different ways to skin this particular cat. The $500 Creative Zen Portable Media Center takes a totally PC-centric approach. It serves primarily as a take-along repository for content from PCs running Microsoft Windows XP Media Center Edition. The far more ambitious $550 Archos Pocket Video Recorder AV420 has the brains to handle media that doesn't happen to come from a PC. And because it shows so much promise, its failings are all the more disappointing.

New portables let you put movies, photos and video in the same box as your music.

At 10 ounces, the Archos significantly smaller and lighte than the Creative but has th same 20-gigabyte capacity an almost identical battery life. also has a far crisper screen though its limited viewing angl means you can't see it well you lay it flat on a table.

But unlike the Creative, th Archos connects with mor than just computers. Its Compact Flash slot lets you offloa photos from cameras that use that form of memory and, wit an adapter, other types. Via a cradle with a rat's nest of eigh cables, it can record video and audio directly from set-to boxes, digital video recorders and, completely flabbergastin me, DVD players.

This is weird. I've never run into any other player that ca copy "protected" DVD movies. Once on the Archos, the movie supposed to play only on the LCD screen and not on a TV c computer. But in my tests, films' audio did play through the TV and though files from two films I tried were unplayable on m PC, files from my store-bought DVD of *The Matrix* played ju fine—perhaps because it may lack analog copy protection.

The AV420 can act like pint-size TiVo if you want to record shows whe you're not around. thoughtfully comes with a "infrared blaster" that mim ics a remote to change th channels on a cable or sate lite box for timed recordin though it can be tricky t set up. You can even pla back your video and photo on a standard TV, thoug the results aren't thrilling.

The Archos can transfe photos, videos, music an data files to and from you PC's hard drive. Standar music and photo forma

Archos Pocket Video Recorder AV420: TiVo, iPod slide show combo.

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work reasonably well, but there's no obvious way to synchronize a music collection. And even simple home videos from a computer are unlikely to play unless you manage to run them through an incomprehensible conversion program buried on Archos' Web site.

The Archos is ultimately doomed by an awkward user interface, inadequate documentation and hardware glitches. I know there's a way to display album art while playing music, but I never figured out the trick. And if there's a way to keep video from breaking up when the unit is plugged in, charging and apparently overheating, I never discovered it.

Archos says it will soon adapt this unit to Microsoft's new digital right management scheme *(see bo below)* and b able to synchronize media collec tions via the new Windows Medi Player 10 program. The compan has come a long way since its las attempt. But some nongeek has go to get involved in the design an documentation before I can recommend this thing.

Creative Zen Portable Media Center: Works with your PC.

How the Creative product ended up being 2 ounces heavie and 50% bigger than the Archos is a puzzlement. It's a bric with a so-so screen. The player's strongest suits are an extremel simple user interface and easy synchronization with content o Media Center PCs—the ones that can record and play TV. It'

Hail the Terrestrial Jukebox!

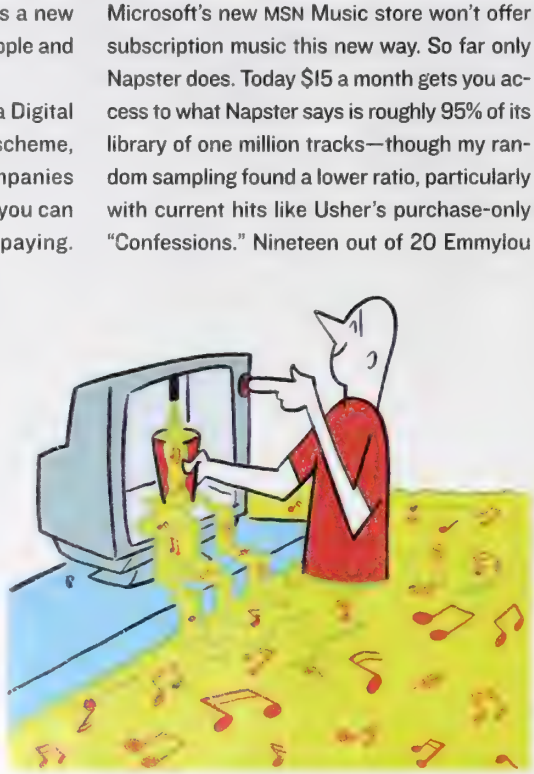
Buying an iPod isn't insanely pricey. The expense—unless you already have a mammoth CD collection—is in the music. By Apple's count, a 20-gigabyte iPod holds 5,000 songs. At 99 cents a track, saying "Fill 'er up" at the iTunes Music Store would cost enough to fuel one and a half circumnavigations of the globe in an SUV.

You could, of course, cram the disk with stuff people have illicitly "shared" with you, but that would be wrong. Now comes a new way to get music on the cheap, and Apple and iPod are out of tune with it.

Microsoft's new Windows Media Digital Rights Management 10 (WMDRM10) scheme, formerly known as Janus, lets companies deliver subscription-based content you can keep playing as long as you keep paying. Outfits like Real Networks have been doing this for a while, but it has been limited largely to computers, with surcharges for burning songs onto CDs. Microsoft's new wrinkle lets you copy subscription material from your computer to portable devices. The result seems like a terrestrial version of the "celestial jukebox" noted back in 1992 by Jay Berman, then president of the Recording Industry Association of America, who predicted "putting all recorded music in digital format on a satellite, permitting people to listen to what they want when they want ..."

Today the only portable device that works with WMDRM10 is Creative's player. But that will quickly change, with more multimedia players from Samsung and Iriver and music-only devices from Dell, Rio and others on the horizon for the holidays. And some existing devices can use the scheme if manufacturers offer firmware upgrades.

Peculiarly, the initial version of Microsoft's new MSN Music store won't offer subscription music this new way. So far only Napster does. Today $15 a month gets you access to what Napster says is roughly 95% of its library of one million tracks—though my random sampling found a lower ratio, particularly with current hits like Usher's purchase-only "Confessions." Nineteen out of 20 Emmylou Harris albums are available for download, onl one of four Jerry Lee Lewis albums is.



From the permissible list you can load a many tunes as you like onto as many as thre computers and three devices at once. You ca fill them to the brim, but you can't burn song to CDs unless you pay extra. The computer "phone home" via the Net to make sure you'r still subscribing, and the devices get okaye when you synch them to a computer.

The system gives you a new way to tr lots of music you might otherwise skip. Wan to figure out whether you'll like Beethover Brahms or Basie? Download 'em all! Wonde whether you'll prefer Elephunk to Maroon 5 Try 'em both and find out!

I'm not sure how the terrestrial jukebo model benefits labels and artists who are sti selling lots of CDs. But for the customer it i wonderful. It also has ominous implications fo satellite radio and à la carte downloads. Wh listen to whatever is on mid-fi satellite radi when you can create your own better-sound ing collection of Elvis or Hoobastank in a few clicks? Why buy a digital track in a format tha may become obsolete when you can get a hug collection for a monthly fee that would other wise buy you just an album and a half?

Of course, if your supplier decides to jac up prices or happens to go broke, you migh have to reconstruct your collection. And it' easily possible for licenses to get more re strictive retroactively, limiting what you ca do with the tracks you downloaded. But eve if that happens, you'll still have heard a lot o music for not much money.

Sounds like a deal to me. —S.M

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the first portable device to offer Microsoft's new digital rights management scheme. But it comes with some ugly PC baggage.

The only way to get content into the unit is to copy it from the PC. But first the PC has to "transcode" photos and videos into formats the Media Player can handle. The resulting files take up much less space on the device, and photos tend to display much faster. But video transcoding takes more than half as long as the running time of the program being worked on. And the process can slow other programs to a crawl.

In theory you should be able to hook up the portable player and let the transcoding happen overnight, but that doesn't always work. And though synchronizing a media collection is relatively easy, the prerelease software I tested wasn't smart enough to transfer short stuff first. To get a song I downloaded from Napster into the Portable Media Center, I had to wait until the machine transcoded four hours of video from the Olympics.

You're unlikely to want Creative's player unless you have a Media Center PC. If you don't have one, hold off until fall, when a new generation of those PC-TV hybrids is expected. And other companies' Portable Media Centers will have the same software as the Creative but less clunky designs. Samsung's Yepp YH-999, which was unavailable for review, is smaller and sleeker but has a presumably shorter-lived battery. But like its brethren, it still won't have the clever no-computer-required features of the Archos.

Some media players are computer-centric. Others get content in more versatile ways.

I also tried the $400 MP-2000 Portable Media Player from Apex Digital. It's more in the Archos mold than the Creative, but its screen is disappointingly wan and grainy, and it's limited in other ways, including having a battery life of just over three hours with video. It might be okay for the kids on a long car ride.

So for now, Jobs is right. Do-it-all portable media players aren't quite ready to crowd music-only devices out of the limelight. But they're definitely getting closer. F

Tiny TV

It had to happen: what Dick Tracy might call a "one way wrist TV." Hands down the clunkiest-looking wristwatch you've ever seen, the NHJ VTV-101 Wearable TV ($200 from Dynamism.com) gets over-the-air local TV and tells time, too. And when you can bring in signals—which fluctuate wildly as you turn hither and yon—the audio and 1.5-inch picture are better than you might expect.

Alas, this is the ultimate in geekiness. The antenna is the headphone wire, meaning you have to use the uncomfortable earbuds that come with the unit and lack a shirt clip. The built-in battery lasts just over an hour, though you can extend that for a couple of hours by hooking up four AA cells in a black plastic box that makes the setup look like a science fair project.

And you quickly realize that despite the unit's major shortcomings, the content wasteland is a greater frustration. A few minutes of being forced to

choose among local broadcasts makes you realize how essential cable, satellite, DVD and TiVo really are.

Sprint PCS has its own version of TV. It goes over its Vision data network to Samsung's new MM-A700 cell phone, $250 (after rebate) if you sign up for a two-year plan. Thanks to a new chip from Qualcomm, the screen actually delivers motion video (though it would be a stretch to call it "full"), and the sound is frequently in synch with the picture.

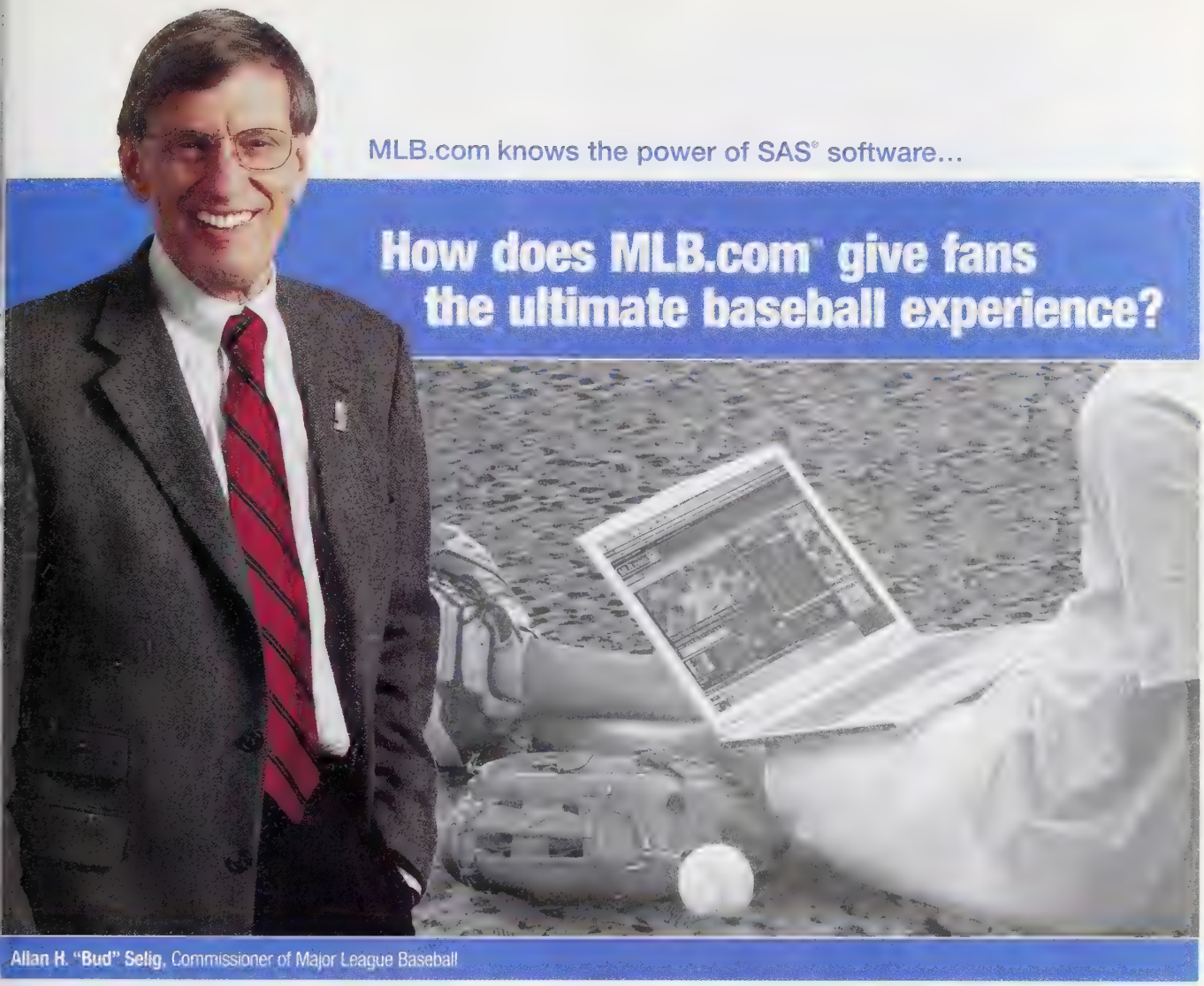
Sprint offers a $10 monthly "basic cable" package that includes brief clips from NBC News, Fox Sports and ABC News Now. But none of the clips I saw ran more than three minutes, and many were out of date. The Fox Sports feed was three days old the first time I tried it, and by evening the ABC News business report was nearly a full day old. CNN's extra-cost news feed was more timely. But during the middle of the Olympics, its sports clip was still talking about some swimming pool in Long Beach, Calif.

Left: NHJ Wearable TV gets local stations. Below: Samsung MM-A700 phone gets Sprint TV.

A better selection with the Sprint phone is the $10 MobiTV service, which delivers significantly worse audio and video but looks a whole lot better than the slide shows it produced on older handsets. Content is key here: You get real live channels like ABC News Now, CNBC, MSNBC and Discovery—though you sometimes may strain to figure out what people are saying and to decipher unreadable text.

The phone's battery surprised me by letting me watch this stuff for more than two hours. These services might be a way to kill time in a long airport delay. But you'd almost certainly be happier watching a DVD, listening to music or reading a good book. —S.M.

Forbes Stephen Manes (steve@cranky.com) was cohost of *Digital Duo* and has been covering technology for two decades. Visit his home page at www.forbes.com/manes.



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Electric Utilities

Creating the Right Environment For Transmission Investment

Produced by Nuala Byrne

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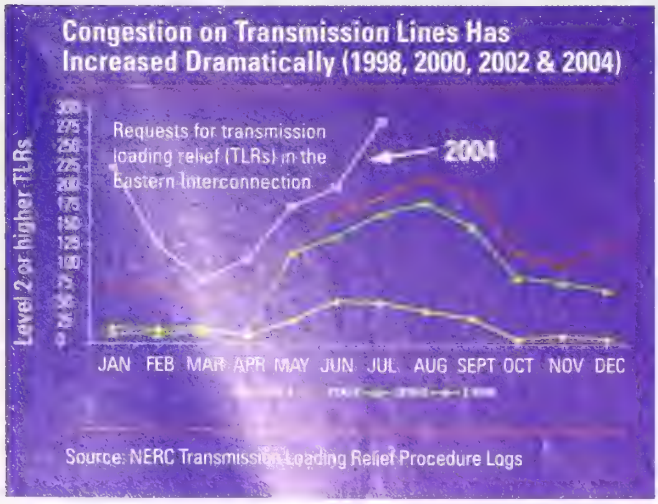
The reason for the past and projected shortfall in transmission investment is not a lack of desire. According to one investment banker, there is a "boatload of cash" waiting to be invested in transmission.

Electrification and the U.S. electric grid are the greatest engineering achievements of the 20th century, according to the National Academy of Engineering. Often described as an interstate highway system for electrons, the grid enables utilities to buy and sell power from each other and other suppliers, ensures the nation's electric reliability by providing alternate power paths in emergencies, and delivers power from remote sources to customers hundreds of miles away. America's power grid consists of nearly 160,000 miles of high-voltage wires divided into three interconnected regional grids, one serving the Eastern seaboard and Plains states, a second serving the Pacific Coast and Mountain states, and a third that operates in Texas.

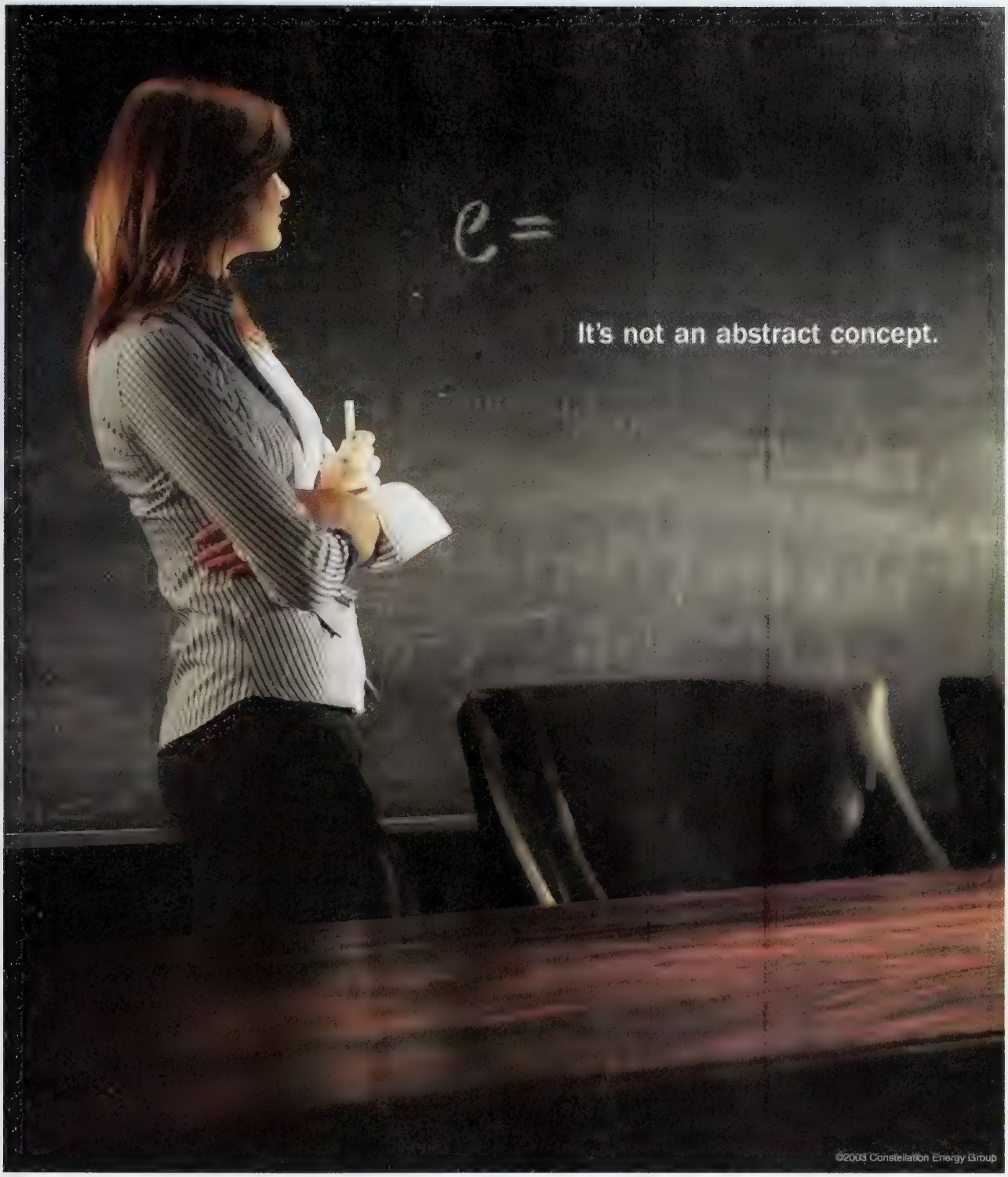
Today, the remarkable U.S. transmission system faces a formidable challenge: handling the huge 22% increase in electricity consumption expected by the end of this decade. How it will be able to meet this challenge is, at this point, the big question.



From 1975 to 2001, transmission investment steadily declined at an average rate of $50 million per year. Investments in 1999 were only half of what they were in 1979. While investment has increased in the last four years at a rate of $286 million per year, maintaining transmission adequacy at its current level might require (according to one analysis) an investment of $56 billion by 2010. Some analysts say more. As things now stand, only about $35 billion is expected to be invested, a shortfall of nearly 40%.

Furthermore, this network for electrons, designed for fewer interregional transactions before wholesale electric competition, is now functioning as an interstate. Line congestion, a kind of electron traffic jam, has increased since the 1990s when the opening of wholesale electricity markets led to a surge in the number of individual, interstate transactions that strategically located portions of the grid were expected to accommodate. Between 1997 and 2002, the number of individual transactions increased 600%. With the digital economy's constantly growing need for reliably delivered power, increased congestion leads to inefficient use of resources, creating a drag on the economy and ultimately imposing a heavy price tag for businesses and consumers — a price tag that can run into billions of dollars annually.

The reason for the past and projected shortfall in transmission investment is not a lack of desire. According to one investment banker, there is a "boatload of cash" waiting to be invested in transmission. But Wall Street is reluctant to commit that cash because of the regulatory and legislative uncertainty in the system under which transmission projects are built. As another



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Wall Street has taken note. Since late 2001, Constellation Energy's stock is up more than 70%, outperforming the S&P 500 and Dow Jones Utility Index.

Constellation Energy
The way energy works.

Put simply, Wall Street and the utility industry have what one expert calls a justified "fear of the future" when it comes to investing in the grid.

investment banker puts it, a natural gas pipeline project with a 12% return and a certain completion date looks better than an electric transmission project with an 18% return and a completion date that is "subject to future politics." One utility financial expert says that if all the "risks, delays and headaches" that regulatory and legislative uncertainty can cause were eliminated, transmission projects would be "massively oversubscribed."

Put simply, Wall Street and the utility industry have what this expert calls a justified "fear of the future" when it comes to investing in the grid. They want certainty; they want to know that projects will be accomplished without the rules changing midway; and they want to know that the return covers the risk.

Jeffrey R. Holzschuh, managing director and head of the Global Power Group at Morgan Stanley, sums up the current state of affairs this way: "There is a cap on how much I can earn and no floor on how much I can lose."

Regulatory Maybes

Power experts see regulatory uncertainty at both the state and federal levels. At the state level, there are growing concerns about whether the benefits of building multi-state transmission will yield immediate local benefits. Also, there is often uncertainty over whether public utility commissioners will grant to a utility a rate of return sufficient to attract investors, as well as whether the regulators will revisit decisions whose rationale a utility has used as the basis for borrowing.

At the federal level, the Federal Energy Regulatory Commission (FERC) is putting a growing emphasis on the need for "regional transmission organizations" (RTOs), working in cooperation with the states, to have an increased role over transmission planning and the acquisition of resources. The purpose is to develop robust competitive wholesale markets, and FERC has granted attractive rates of return for companies that join RTOs and for completely independent transmission companies.

In its attempt to reshape the power industry into a more efficient national market, FERC has been using market-based pricing as a carrot to convince all transmission-owning utilities to join one of 10 active and proposed RTOs. These organizations are meant to work cooperatively with one another on transmission market issues but operate independently of their members' managements. RTOs provide transparency in transmission pricing, help ensure reliability and create both a viable real-time market for electricity and a long-term market. One benefit of a robust long-term market is to stimulate investment.

While many utilities have joined RTOs, many have not. The question remains among some companies and state commissions as to whether the benefits of stimulating an efficient competitive wholesale market via RTO development outweigh the actual costs of joining an RTO. That is a worry to financial markets, too. And because of the questions,

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"We are successfully executing our plan for 2004 and we remain on track to reach our earnings target of $3.50 to $3.65 per share," says President, Chairman and CEO Bob McGehee.

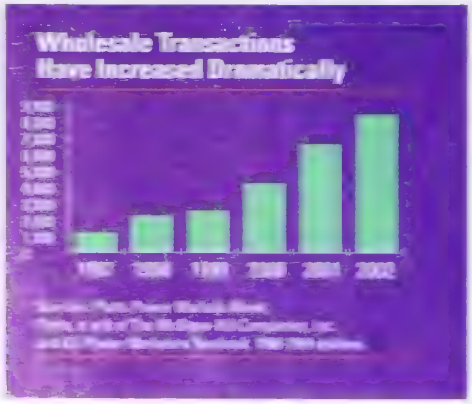
Primarily engaged in the generation and distribution of electricity in Florida, North Carolina and South Carolina, Progress Energy has benefited from the region's economic rebound in industrial production, tourism and other sectors. More than 50,000 customers have been added since June 30, 2003. Progress Energy also includes nonregulated operations covering competitive generation, energy marketing, natural gas production, fuel extraction, rail services and broadband capacity. For more information, visit www.progress-energy.com.

Progress Energy

In addition to regulatory uncertainty, there is tremendous legislative doubt caused by Congress' inability to pass a comprehensive national energy bill.

the industry's future structure remains unclear, which only adds to that concern.

In addition to all of this regulatory uncertainty (and even questions as to whether FERC has the authority to do what it's doing at all), there is tremendous legislative doubt caused by Congress' inability to pass a comprehensive national energy bill. The effect is to leave Wall Street constantly thinking that if it waits just a little while longer, the investment climate for transmission or new generation construction will improve. Wall Street and the industry feel that the Bush administration's proposed energy bill would definitely improve the investment climate: It would lead to numerous changes in transmission policy affecting such matters as siting, reliability enforcement, tax policy and access to federal land. For example, the bill would remove tax impediments to investment by shortening depreciable lives for transmission, distribution and generation facilities similar to the depreciation schedules of other capital-intensive industries. It would also amend the federal tax code to defer taxes on the sale and eliminate taxes on the spin-off, of transmission facilities. Plus, it would repeal the Public Utility Holding Company Act, which acts as a barrier to the formation of interstate independent transmission companies.



Unfortunately, the legislative initiative has been stalled for two years, not because of any provision pertaining to the power industry, but because of totally unrelated provisions, such as those covering methyl tertiary butyl ether (MTBE) in gasoline. Utility industry leaders are extremely frustrated because, despite strong support for the bill's electricity provisions, the bill itself is likely to remain stalled for the foreseeable future.

Where to Put the Lines

To be sure, whatever is going on in Congress, electric utilities have an obligation to serve the public. Part of that involves giving consumers the lowest prices through efficient electricity markets. But they also have an obligation to protect their investors, so they need to have some certainty that a transmission project will be built on time and that they will be able to recover their costs with a reasonable rate of return. But with the lack of certainty, utility CEOs "are unsure of where to put their money," says Ronald E. Seenoizer, director of Business Services and Finance at Edison Electric Institute, the Washington, D.C.-based trade association for investor-owned electric utilities.

From Wall Street's perspective, the single-

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FACT: Nitrogen oxides (NO_X) emissions are down 40%.[2]

FACT: Mercury emissions are being reduced 40%.[3]

FACT: America's electric companies are working toward additional reductions in these emissions nearly 70% from 2003 levels.

This environmental progress is even more impressive since our growing economy and improved standards of living have led to significantly higher electricity consumption over the past generation.

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Wall Street and the utility industry agree that the way to eliminate siting uncertainty is to grant the federal government limited backstop siting authority.

biggest uncertainty is over the siting of a new transmission line, especially one that crosses state borders. While these are the very lines necessary to serve new economic growth, they are the most difficult to get approved because developers often must seek multiple state permits and approvals. Opposition invariably arises in locales that see only the cost and environmental impact of a new line without seeing the economic benefits to the region. Complicating matters further, states may have different, even conflicting, requirements to site a line. An additional headache in the West is that utilities have limited access to federal lands.

Right now, siting a line is an uncertain venture. "It all begins with local opposition. There's a lack of willingness by people to allow siting," especially when the environment will be impacted, says Terran Miller, executive director, UBS Investment Bank. In one Virginia county, for example, residents who say they want to preserve one of the last vestiges of their rustic past reportedly are fighting a proposed transmission line because it would result in trees being felled. The irony, of course, is that the new line is needed to serve those residents, who, by moving in large numbers to the area, are creating the economic growth and increased demand.

Wall Street and the utility industry agree that the way to eliminate siting uncertainty is to grant the federal government limited backstop siting authority: If a line is to serve a critical economic need but is hampered by conflicting state and local decisions, FERC could step in and clear the way for its construction. Unlike the authority federal energy regulators have always had with natural gas pipeline projects, electric transmission projects have traditionally fallen under state purview. That was fine when power companies each operated a largely isolated transmission system serving mostly local needs. Now that large amounts of power move across state borders in much the same way natural gas does, greater federal oversight of transmission is a necessity, experts say.

To be sure, as envisioned by the power industry, state and local governments would continue to play a critical role in transmission line-siting processes. But as John Thorndike, Merrill Lynch & Co.'s vice chairman of Investment Banking, emphasizes, federal siting authority has become an absolute must now that the safeguarding of the nation's electric system has become a matter of national security post-9/11. Miller of UBS Investment Bank says that the federal government should immediately draw up a national list of the most-needed transmission projects.

The Bush energy bill contains provisions for federal backstop transmission siting for "national interest electric corridors." If and when the bill passes, however, states' rights proponents no doubt will mount a legal challenge that likely will last many years.

Continued on Advertisement 13

DOMINION

An Even Healthier Future for Company and Customers

Dominion, one of the nation's largest energy producers, expects to achieve solid earnings growth of 5% to 7% a year in each of the next several years, thanks primarily to its role as a key electric and natural gas provider in the Northeast, Midwest and Mid-Atlantic regions, which together make up the world's third-largest economy.

Richmond, Va.-based Dominion (NYSE: D) is the holding company for a unique set of fully integrated energy businesses whose earnings combine the safety and protection of a regulated rate of return on investment with the growth and diversification potential of the deregulated energy marketplace. Overall, more than half of current earnings are from regulated or tariff-based businesses.

Dominion's broad-based operations range from power generation and distribution to oil and gas exploration, production and transmission. The company serves millions of retail customers in nine states, and its portfolio features electricity generated from a wide range of fuel sources, led by coal and natural gas, and includes non-polluting nuclear power and hydropower.

Anticipated earnings growth is only one of several indicators of Dominion's outstanding financial health. The company's operating cash flow and interest coverage ratios are growing, while its ratio of debt as a percentage of capitalization is declining. Also, between 1998 and 2003 — a turbulent, scandal-ridden time in the energy industry — Dominion investors realized a total return of nearly 75%. In addition, the company has paid investors more than 300 consecutive dividends over the last 70 years. "Through recent market turmoil, I've made a special point to assure you that our existing dividend rate is secure. It remains secure," Thos. E. Capps, Dominion's chairman and CEO, told investors in the company's 2003 annual report.

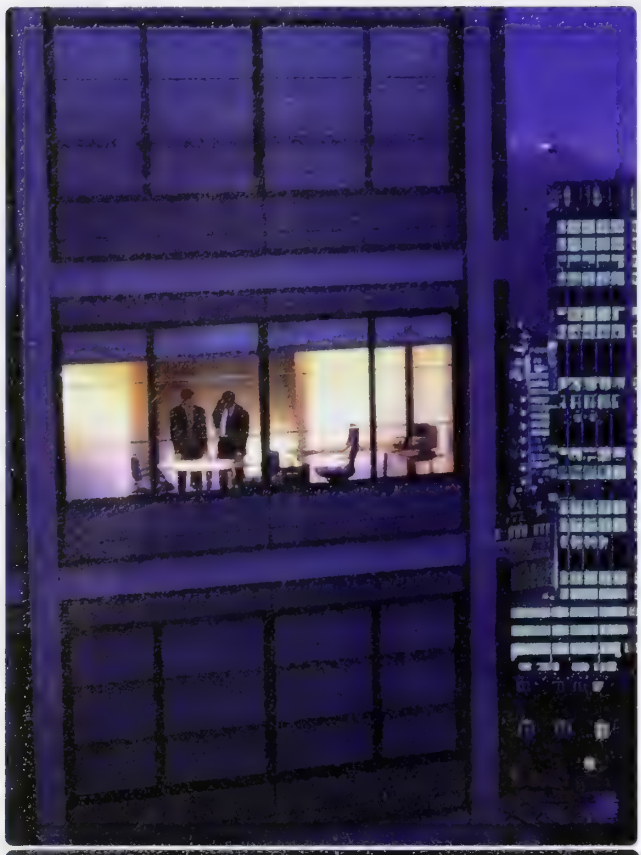
Non-financial indicators further illustrate Dominion's strong position in the energy industry. The company recently received recognition as America's second most-admired utility. Collectively, Dominion's officers own about 2.2 million shares of the company; no management in this sector owns a higher percentage of its company's shares.

By midyear, Dominion's market capitalization ranked as the third largest of all American electric utilities.

A key reason why Dominion's current and future financial health looks so good is a new law passed by Virginia lawmakers that has been described as a unique "win-win" situation for a utility and its customers. What makes this new law so important is the financial certainty it will provide. Under the legislation, Dominion Virginia Power's 2.1 million customer accounts know that they won't see their rates go up through 2010, except for a fuel adjustment in 2007. Dominion's investors know they will be the beneficiaries of any money the utility saves through efficiency improvements. In short, investors will benefit from a more predictable revenue stream and the expertise of management, while customers will benefit from not having to worry about any unpleasant surprises in their monthly bills.

In his most recent letter to shareholders, Capps tells investors the core of Dominion's continued success is its employees — "people with enormous pride in their work."

Visit Dominion's Web site at www.dom.com.



Several states have come up with innovative laws and regulations that increase the certainty of a utility's ability to recover costs of essential transmission investments.

Continued from Advertisement 9

Rate of Return

The issue of national security aside, and even without federal siting authority, Wall Street might still be persuaded to invest more in transmission if regulators were to raise the rate of return on investors' money by applying a special risk premium. As Merrill Lynch's Thorndike puts it, a risk premium could offset transmission projects' "unusual risks of delay and failure" and thereby "tip the balance in favor" of investment.

For Wall Street, however, a risk premium is useful only if regulators agree not to revisit their decisions. When regulators in California, a state in dire need of new transmission, pushed utilities to build more, power firms responded but confronted local opposition. Someone from the state utilities commission was quoted in the press as saying it was time the agency reexamine the situation, a statement that pr duced uncertainty among potential investors in a host transmission projects.

Among state policymakers, there is growing recognition how those results lead to longer-term problems for the energ sector and the economy. Several states have come up wi innovative laws and regulations that increase the certainty a utility's ability to recover costs of essential transmissio investments. Kansas, for example, recently enacted a la assuring cost recovery preapproval for generation and tran mission projects. In Iowa, the public utility commission ha said that ratemaking treatment can be set before constru tion of a transmission project and that the treatment cann be undone in future cases.

Such certainty helps transmission investment. Right no it's difficult to take the risk if the rules change. Comprehe sive energy legislation can provide additional assuranc Also, rather than having the future of wholesale pow market structure in doubt and federal regulation proceedi into unknown territory, a regional approach to wholesa markets, preserving all options for transmission owner would allow Wall Street the comforting knowledge th those owners had more control of their business decision It would also help Wall Street to know that the rate of retu on transmission projects was solid and inviolable — number the Street could trust.

The capital is there, but until the uncertainty is diminishe Wall Street will find investments elsewhere. Given th looming shortfall in transmission investment over th remainder of this decade and the growing demand of strengthening economy, there seems no time like the pre ent to boost the transmission system, reduce regional co gestion and expand the greatest engineering achieveme of the 20th century.

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A Mexican entertainment company bets ambitious U.S. tykes are more interested in role-playing than Rollerblading. It wants marketers to hop on for the ride.

BY ALLISON FASS

WHEN LUIS JAVIER LARESGOITI TALKS about playing grown-up as a kid, he recalls pretending to deposit money in a bank. "When you see that bank counter as a child, you dream of the day you can talk to the lady on the other side," says he.

Laresgoiti, 40, now hopes to cash in on that fantasy by making it a reality for kids. As chief creative officer of Wannado Entertainment, a division of Corporación Interamericana de Entretenimiento (CIE) of Mexico City, Laresgoiti is the creator of a retail entertainment concept aimed at capitalistic kids. Called Wannado City, the new attraction outside Fort Lauderdale, Fla. gives tykes between the ages of 4 and 11 the chance to try 250 different grown-up jobs, including home-improving and broadcasting.

Children also get a crash course in marketing. Companies are being tapped to sponsor the 60 venues and realistic townlike touches, like lampposts and trucks, inside the 140,000-square-foot park in Sawgrass Mills mall in Sunrise, Fla. Among the sponsors: Spirit Airlines, with a DC-9 where kids use flight simulators; Publix, lending its name to a grocery store where kids man cash registers; and the *Miami Herald*, which will let them pose as reporters for the newspaper. Coming soon: a Coca-Cola site that will let youngsters control the carbonation level on a bottling line. Eventually, the only unbranded element may be the kidney stone that wannabe doctors remove from a dummy in an operating room.

Wannado City isn't exactly like real life. It's the only place on the planet where beauticians earn as much as physicians. Kids can spend Wannado currency, called wongas, in the onsite beauty salon or at the circus. They also have the opportunity to stash their wongas in an interest-bearing account at State Farm bank—the insurance giant's only storefront bank. But how many 6-year-olds are savers?

A lot of work, some play: Wannado City lets wannabe firefighters and doctors try the job.

So far there are 11 sponsors at Wannado City, which opened in August. Collectively, they are paying $4 million to get their brands in front of an anticipated 1 million visitors by next August. The park is modeled after a smaller one Laresgoiti conceived in Mexico City. At La Ciudad de

Teaching kids about adultdom: Wannado City creator Luis Javier Laresgoiti with visitors.

los Niños (Kiddie City), 57 marketers, including General Motors, Johnson & Johnson, Microsoft and Unilever, pay a total of $3 million a year to push their brands on 880,000 guests. The five-year old site brought in $12 million in revenue in 2003. "I thought the operation was going to be a mess," confides Rene Aziz, chief of CIE Amusement Parks, which doesn't own that project. "But it was the most smashing success I've ever seen in this industry in my life."

CIE tapped Laresgoiti, who got $1.5 million when he left his partners in Mexico to design and develop Wannado City. CIE Amusement Parks owns the majority of the offshoot company, Wannado Entertainment. Laresgoiti, a failed importer of carnivorous plants, has an 18% stake. The hope is that Wannado Entertainment's revenue from ticket, product and sponsorship sales will total $30 million by next August. Kids pay $25 to visit the park and linger, on average, five hours. Adults pay $16.

It's easy to dream big when you're in the make-believe biz. Wannado Entertainment Chief Executive Jane Cooper, formerly head of Paramount Parks, is already cooking up ways to extend Wannado City. There are plans with the Mills Corp., Wannado City's landlord in Florida, to open sites in Chicago, New York and possibly elsewhere. She wants to extend the franchise to TV, publishing and theater production.

But marketers aren't flocking to Wannado City as quickly as CIE hoped. There's still no sponsor for the pizza kitchen or the unfinished house where kids play carpenter, obvious venues for a Domino's and a Lowe's. While early plans called for sponsorship funds to help defray Wannado City's $40 million development (as was the case with the Mexico City park) CIE instead took out a $10 million loan that Wannado Entertainment must repay. The rest of the cost is split 50-50 between a Mexican investment fund and Mills. "In Mexico they were more willing to buy into the idea, to believe in the dream," sighs Laresgoiti. "American guys say, 'It sounds really cool but where is it? I want to see it.'"

Even sponsors admit Wannado isn't about short-term sales-building. "If it were just about marketing, I'd probably find better uses; I'd have a blimp flying over Sawgrass Mills," says Samuel McClain, head of marketing and public affairs for State Farm in Florida.

Xavier Lopez, general manager of the Mexico City park and Laresgoiti's former partner, says Wannado City is too big. It's three times the size of La Ciudad de los Niños, in an area with far fewer residents. But he does think the idea has potential outside Mexico. Lopez is looking for an equity partner stateside so he can help Wannado City kids learn about yet another grown-up reality: cutthroat competition. F

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Almost Out of the

SCOTT CRUMP toiled for years to perfect a cheap machine that whips out 3-D prototypes. The hard work is finally paying off | BY BRETT NELSON

SCOTT CRUMP HAS SPENT MOST OF HIS LIFE FIXing busted machines. A tinkerer at 14, Crump traded the gearbox of a riding lawn mower for an errant Morris Minor auto salvaged from a harbor in Bridgeport, Conn. After dismantling its brake drums, carburetor, motor head and oil pan to sand off the rust, he gave the refurbished car to his mother in exchange for lifts on his newspaper route. Later, in high school, Crump spruced up seven junker Volkswagens and sold them for $400 to $600 apiece. "It beat working at McDonald's, and I did that for a year and a half," he says.

Now, at age 51, Crump is overhauling the Eden Prairie, Minn. company he started in 1988. Stratasys makes boxy machines that turn digital drawings into life-size prototype parts within a few hours. Taking its cues from computer-aided-design software, an extruder stacks thin layers of gooey thermoplastic that cure into shape. The parts—as large as 2 feet on a side and accurate within five-thousandths of an inch (about twice the diameter of a human hair)—give more substance to sales pitches and reveal flaws earlier in a product's design.

Along the way Crump developed a few kinks of his own. Stratasys survived early on by peddling refrigerator-size versions at $300,000 apiece to the likes of GM, 3M and Pratt & Whitney. It stumbled when it tried to launch a smaller, office-friendly 3-D printer—price tag: $55,000—aimed at a larger universe of machine shops, industrial designers and engineering schools. The first 300 machines swarmed with so many bugs that Crump had to cancel production twice in five years.

Good thing he had the brains—and the perseverance—of his old man. A chemical engineer with an entrepreneurial itch, Ralph Crump had a hand in starting or backing eight companies. Among them: Frigitronics, maker of ocular diagnostic equipment (bought by Revlon for $114 million in 1986), and Osmonics, a water-filtration outfit (acquired by General Electric for $270 million). Despite dad's success, "it was made very clear that we kids would need to grow our wealth the old way, by earning it," says Scott.

That he did. Crump studied mechanical engineering at Washington State University before starting his own company, an oddball maker of automated packaging machinery and large electronic scales. Still he continued to dabble. In 1998 he set out to make a toy frog for his 2-year-old daughter. Using a handheld glue gun, and armed with a home-cooked slurry of polyethylene and candle wax, he built the shape layer by layer. After burning through 13 weekends and $10,000 on digital-plotting equipment, Crump's wife, Lisa, declared: "Quit or incorporate!"

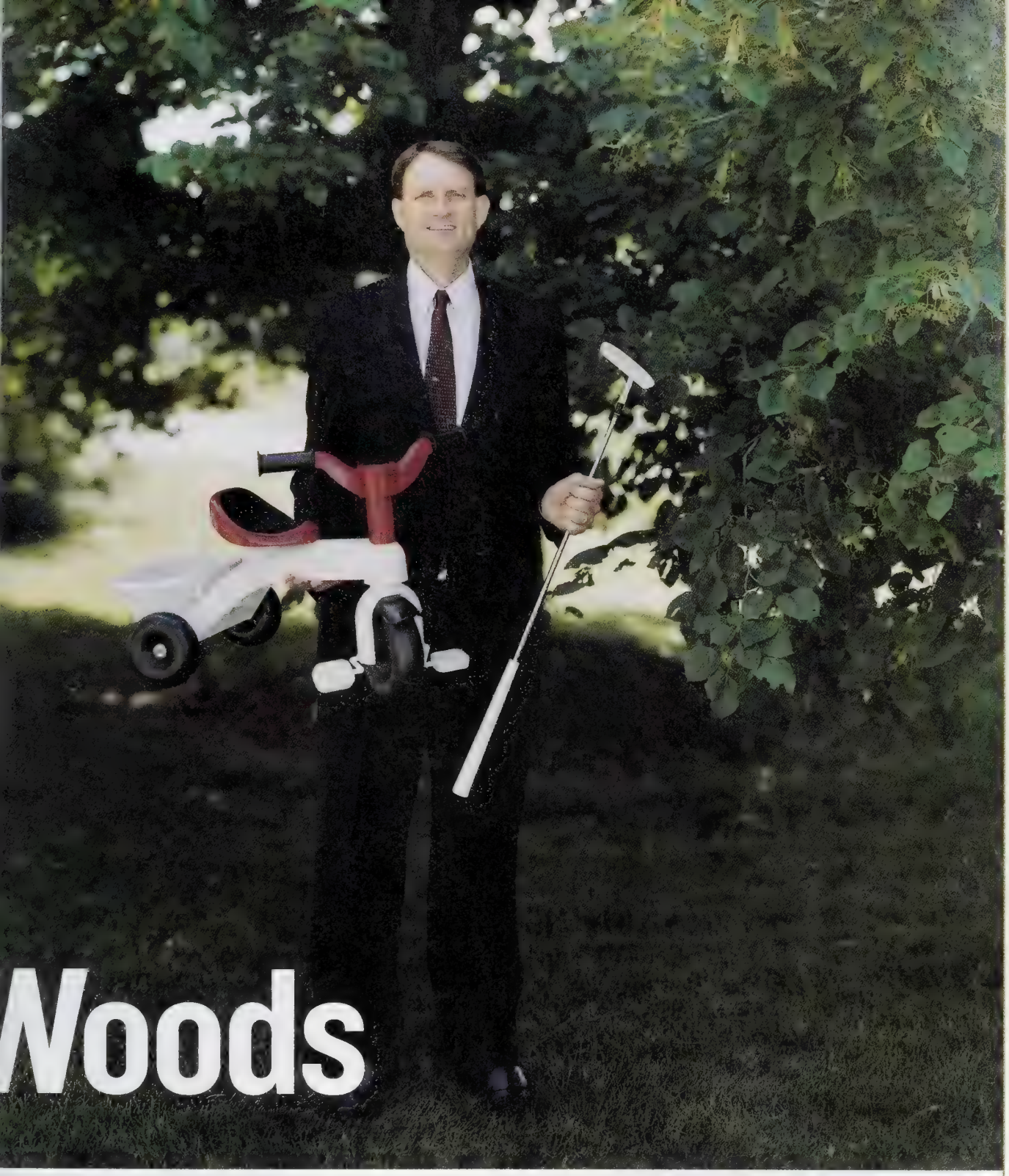
In 1991, after courting scores of venture capitalists, Crump gave up 35% of Stratasys to raise $1.2 million—just enough (along with $264,000 from selling stakes in various family holdings) to build five large machines. About a year later IBM began developing a small 3-D printer with an extrusion mechanism eerily similar to Crump's patented design but with a different feeding system. Rather than wrangle in court, Crump convinced the big company—in exchange for $500,000 and 500,000 Stratasys shares—to codevelop a low-end machine called Genisys.

IBM's design involved feeding small plastic wafers into a heated pump that melted them and pushed the goo through an extruder. It worked—sometimes. Other times the nozzle plugged up, the wafer loader jammed or the platform on which the prototype was formed slammed into the extruder. Crump halted production in 1998, but not before 150 units had made it out the door.

One big problem turned out to be contaminated wafers. Some melted at such high temperatures that unmelted pebbles blocked the extruder nozzle. Crump changed suppliers, tightened manufacturing tolerances on the pellet feeder and replaced the erratic sensors used to control the platform. As the next 150 machines rolled out, reliability improved, but not nearly enough. Production stopped again in 2001. "We spent I don't know how many hours [in the field] to keep these products operational," says Jonathan Cobb, vice president of the 3-D-printing unit. "Customers didn't want the hassle."

By early 2002 Crump had shelved IBM's wafer feeder altogether. Instead of wafers, he used spools of plastic filament fed through a heated rod, eliminating many components that were too expensive to manufacture. (IBM has since sold its stake in Stratasys.) "In hindsight [our mistakes] look pretty dumb," says Crump. Adding up what the company paid for IBM's technology, the research and engineering costs, as well as on-site troubleshooting, "this was a $10 million lesson."

Result of all the reconfiguration: a $24,900 machine called Dimension. Crump claims it will run glitch-free for 3,000 hours—a sixfold improvement over the original Genisys—based on a test involving 22 machines running round the clock for two years.



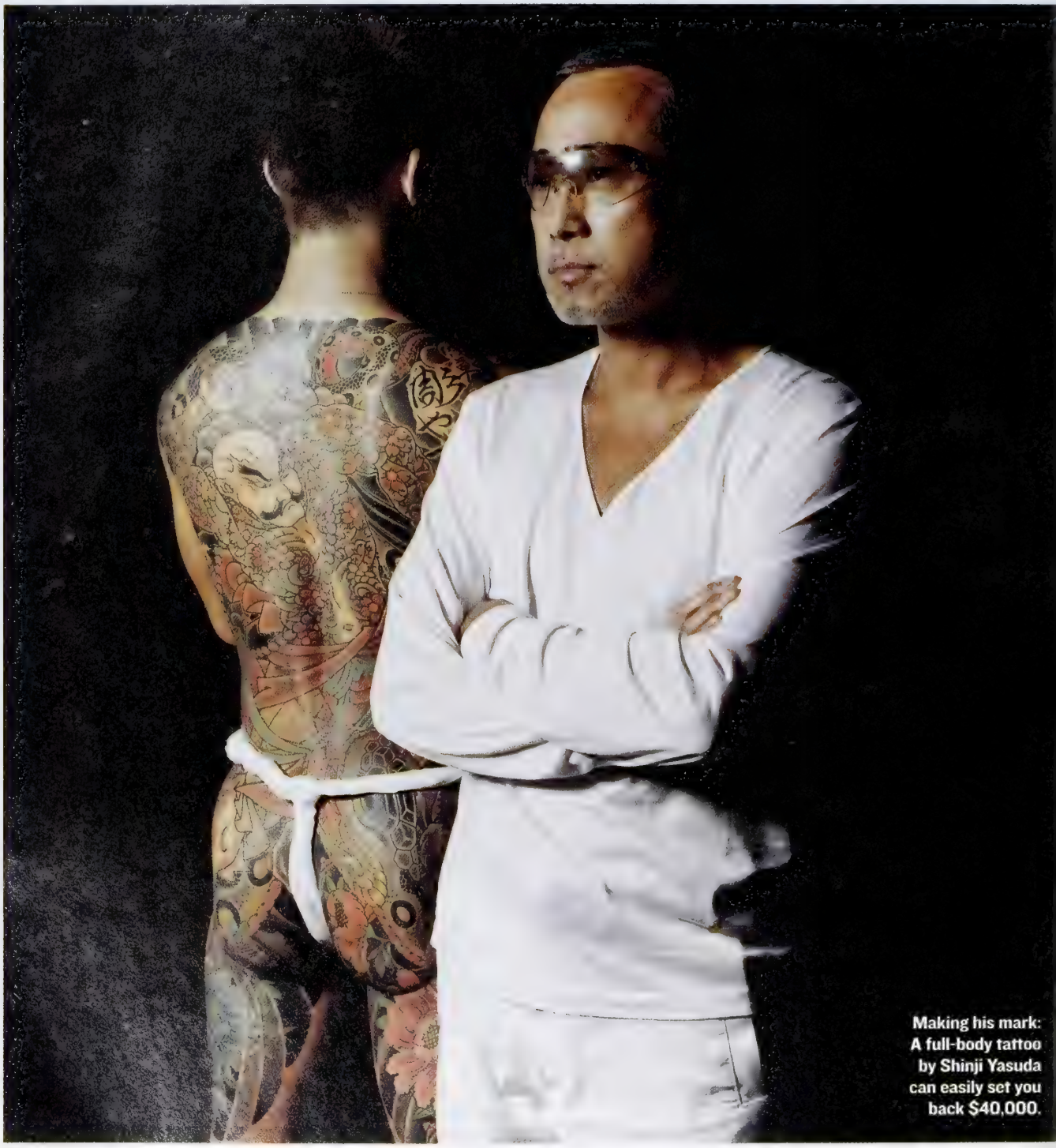
Child's play it isn't: Building a bug-free 3-D printer of plastic models involved what Crump calls a "$10 million lesson."

Davis Aircraft Products, an engineering company in Bohemia, N.Y., used one to design a blade-folding device for Apache helicopters; the multicomponent system allows the birds to fit on transport planes without having to remove, reattach and realign the blades, a lengthy process. Says Vice President Douglas Davis: "The machine paid for itself on this one job."

Last year Crump sold 500 3-D printers—more, figures industry tracker Wohlers Associates, than the combined sales of his three top competitors in the $580 million industry of rapid-prototype machines and parts. For the six months ended June 30 net income was up 59% from a year ago to $4.3 million, on sales up 46% to $33.2 million. A good chunk came from 3-D printers. The bulls who have sent Stratasys shares to $26, or 32 times trailing earnings, see endless potential here. There are 1.7 million 3-D CAD programs in use. If 1 in 20 gets a 3-D printer (at Davis Aircraft, the ratio is 1 in 4), Crump's potential market, at $25,000 a pop, would be $2 billion. F

Adventures in the Skin Trade

Becoming a consummate tattoo artist in Japan requires hard work—and skirting convention.



Making his mark: A full-body tattoo by Shinji Yasuda can easily set you back $40,000.

BY BENJAMIN FULFORD

WHAT'S A GUY TO DO WHEN HE'S a highly trained expert in a field for which there is no longer much demand? As an expert sword sharpener, charging $100 an inch to whet *Kill Bill* sorts of blades, Shinji Yasuda was the master of a dying art that had about as much chance of revival as the samurai warriors. So, at 36, he turned to the trade he had always wanted to learn—tattooing.

Not so easy. For one thing, as an apprentice you had to undertake menial tasks and endure physical abuse. For an-

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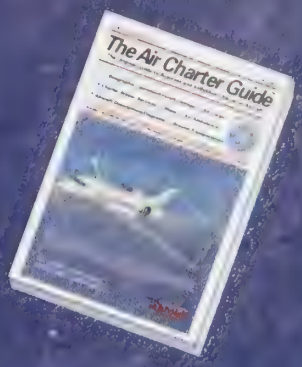

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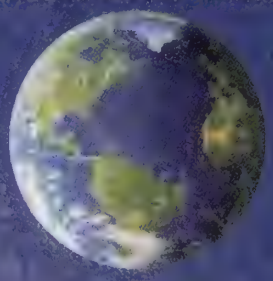

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other, the business has a long, disreputable history. In Japan tattoos started as stigmata on the foreheads of criminals, who later camouflaged the tags with ornate designs. The 19th-century artist Utagawa Kuniyoshi made a series of prints based on the *Suikoden*, a Chinese novel about a Robin Hoodish gang of outlaws. Soon these prints were copied onto the backs of common laborers and even royalty (British kings Edward VII and George V had them; so did Czar Nicholas II). To this day most Japanese tattoos are inspired by Kuniyoshi. Still, the Meiji government outlawed tattoos in the late 19th century, a ban that remained in effect past World War II. Tattoos again became the private province of outlaws and the *yakuza*, or gangsters. Today, thanks to years of government suppression, there are perhaps 300 tattoo artists in Japan, hazards Kunihiro Shimada, president of the Japan Tattoo Institute. By contrast, the U.S. has 15,000 parlors, pulling in $450 million a year.

With little experience, 15 years ago Yasuda convinced a tattoo artist to let him watch his work in exchange for his services as a gofer. When he started on his own, tattooing was going through a major transformation from something worn by gangsters to a more mainstream fad. Before Yasuda went into the trade full time, a typical tattoo artist was an itinerant going from one *yakuza* office to another. Wearing a full-body or full-back tattoo was a sign of permanent fealty to gangsterdom. (Many apprentice tattoo artists did a roaring business blacking out tattoos of gang names of former members or the names of dropped girlfriends.) The price for mistakes ran high. "I heard of one guy who, working from a print, mistakenly put a mirror image on the person's back, with the result that the sword of the figure in the tattoo was in the left hand," a *yakuza*-linked source says. The luckless tattooist lost his little finger as a result. Tattoo artists had to hire protection to deal with troublesome clients.

That was then. Yasuda uses legal disclaimer forms instead. His work is among the best-known in Japan—at least among tattoo aficionados. Only a small percentage of his customers are *yakuza*. That's partly because of an anti-gangster law passed in the 1990s that made it illegal to show a tattoo in circumstances where it could be construed as an implied threat. "It is bad for business to have a tattoo, because politicians and businessmen do not want to be seen with you," says a gang boss in Tokyo. But even the more mainstream clients—whether they're working-class rebels or young folks under the spell of Western tattoo fads—have to be discreet. They'll gladly pay Yasuda $10,000 for a full-back tattoo and $40,000 for a full-body job. But they face discrimination, as many public establishments still post signs banning anyone with a tattoo.

"It is BAD FOR BUSINESS TO HAVE A TATTOO," says a Tokyo gang boss, "because politicians and businessmen do not want to be seen with you."

Which means that Yasuda stands a better chance to make his mark overseas—as he recently did at the New York Tattoo Convention, where the crowd included biker types, mothers with babies, people who would have looked at home on the floor of a stock exchange and freaks like the Enigma, who was tattooed from head to toe in blue and sported surgically installed horns. Among the multitude of styles competing for attention and prizes, Yasuda's craft stood out. "All of us went 'Wow!' when we saw his work," says Omar Del Peso, one of the judges. Yasuda won the two top prizes. "It gave me the chance to have my work recognized," he says. But, alas, it gave him no new business back in Japan.

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2004 Mutual Fund Survey

For all the scandals, funds are an excellent way to invest, and here we show you how. We reveal the pitfalls of those popular fund supermarkets, the way to get star managers on the cheap and where to find canny funds that cull stocks by computer.

Supermarkets 216 |
Moonlighters 220 |
Quant Funds 226 |
Expenses 230 |
Best Buys 241 |
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Booby Prize 246 |
U.S. Stock 250 |
Foreign Stock 268 |
Global Stock 272 |
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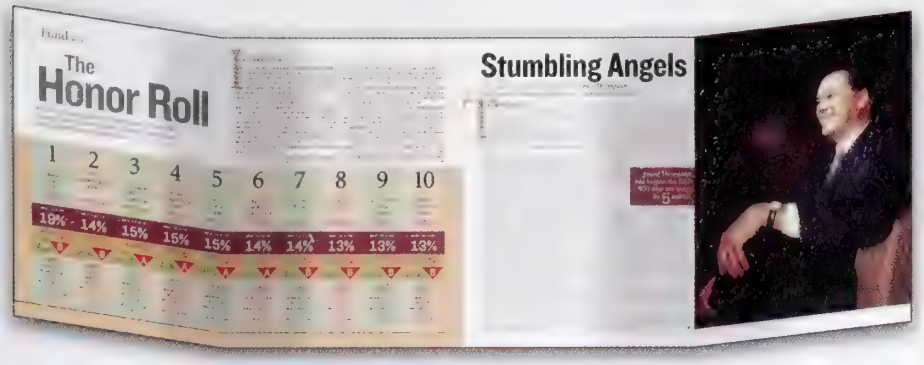


Honor Roll and Thompson profile on foldout after page 232.

Supermarket Sweepstakes

BY LAURA SAUNDERS

ILLUSTRATION BY SEAN KELLY FOR FORBES

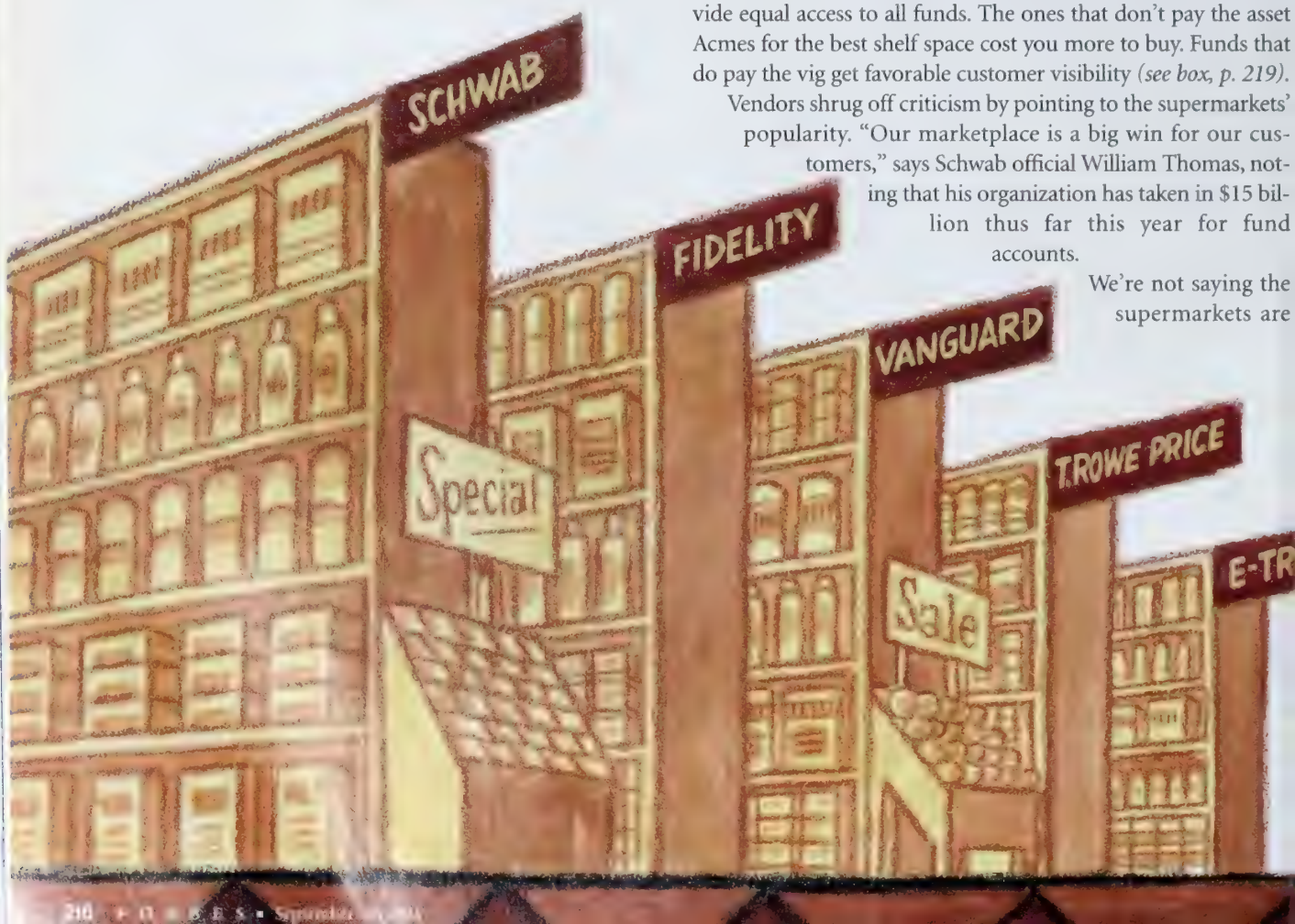
IF YOU INVEST IN MUTUAL FUNDS, SOONER OR LATER YOU'LL likely turn—with relief—to a mutual fund "supermarket." These are virtual bazaars that offer one-stop shopping for several thousand funds from different families. Brokers like Schwab, E-Trade and TD Waterhouse, and the large fund shops like Fidelity, Vanguard and T. Rowe Price all offer them.

And why not? You get lots of choices, online access and one statement for tax purposes. Without a supermarket it can take several weeks and messy paperwork to move retirement assets from a Fidelity fund to one at Vanguard, as opposed to two days with the supermarkets. And owning one fund at each of several fund families means a lot of account statements clogging your mailbox. No wonder supermarkets are vastly popular. Since Charles Schwab & Co. pioneered the idea in 1984, fund assets held through them have grown to $600 billion.

But cost-conscious investors take note: This popularity has made the supermarkets the King Kongs of the fund world, says East Greenwich, R.I. fund consultant Geoffrey Bobroff. Their ability to throw weight around can mean higher, return-eating fees that can push up costs for investors, even those who never go near a supermarket. Just how much these fees are remains a mystery. And as convenient as supermarkets are, they don't provide equal access to all funds. The ones that don't pay the asset Acmes for the best shelf space cost you more to buy. Funds that do pay the vig get favorable customer visibility *(see box, p. 219)*.

Vendors shrug off criticism by pointing to the supermarkets' popularity. "Our marketplace is a big win for our customers," says Schwab official William Thomas, noting that his organization has taken in $15 billion thus far this year for fund accounts.

We're not saying the supermarkets are



Mutual fund supermarkets are gloriously convenient and hugely powerful. But they can charge hefty fees, and they play favorites.

forces of evil to be spurned. Indeed, changes in the works, including some proposed by the Securities & Exchange Commission, will make them even more useful to investors, or at least shine a welcome light in dark corners. What we are saying is, do your homework. Don't assume that a fund's appearance on a supermarket's special list means that it is the best choice, or that paying a fee to buy a fund is necessarily a bad thing. You might even decide that you're best off holding some funds through a supermarket but others directly with individual fund sponsors.

To understand more, it's useful to know how the supermarkets divvy up the fund world.

House brands. This category is straightforward: Fidelity funds at Fidelity, T. Rowe Price funds from T. Rowe, etc. These are funds the supermarkets want very, very much for you to purchase, so buying and selling them usually costs zilch in fees.

No-dice funds. This small group doesn't do business with supermarket operators. It includes the $1.6 billion Mairs & Power Growth Fund and a lot of tiny funds, like the one profiled on page 230.

Pay for the Privilege

If you want to buy from a supermarket a fund that's not on its favored NTF roster, it will cost a pretty penny.

	FEE TO BUY $5,000 ONLINE	FEE TO BUY $25,000 ONLINE	FEE TO SELL	FEE FOR AUTOMATIC INVESTMENT PLAN
Etrade	$25	$25	$25[1]	not AIP
Fidelity	75	75	None	$5 per month
Schwab	50	80	same as fee to buy	no AIP
T Rowe Price	35	35	35	$35 to set up
TD Waterhouse	30	70	same as fee to buy[1]	no fee
Vanguard	35	35	35	$3 per transaction

[1] With some exceptions.

Transaction fee funds. This independent bunch refuses to pay slotting fees to the supermarkets. Instead, fund buyers pay at the checkout counter to buy and, sometimes, sell funds in this group (*see table*). So if you have four Vanguard index funds in your Fidelity account and want to add to them once a year, you will pay $300 if you do it online, more if you phone a Fidelity broker. (Obviously this is one thing if you're buying $100,000 of each fund, quite another if you are buying $1,000 worth.) Some supermarkets charge less if you enroll in an automatic investment plan.

Fund families in the TF group include well-known outfits like Dodge & Cox, Bridgeway, Northeast Investors, Longleaf, Meridian and Tweedy, Browne. Also there are Schwab, Vanguard, Fidelity and T. Rowe Price, if you buy their funds through another supermarket (*see list, p. 219*). So buying Schwab International MarketMasters costs nothing if you do it through Schwab, but $70 round trip if you go through T. Rowe Price's supermarket.

Overall, TF funds tend to be worthwhile. Many have either clout (investors want them) or principles (they believe in minimizing costs) or both. They have to, because they sit on the supermarkets' equivalent of a dusty back shelf, bereft of marketing support. Royce Funds, for example, opted to go TF at all supermarkets in late August; that means the Royce Funds that used to regularly grace Schwab's influential Select List are no longer eligible for that privilege. And when one Schwab broker was queried about Vanguard bond funds recently, he admitted that yes, you could get them, but why bother? "Others have done better," he warned. Yes, for Schwab.

No transaction fee funds. Here is where the rub is. These cost you nothing to buy or sell. The reason is that the fund sponsors pay dearly, often by sharing revenue from the expense ratio borne by the investor. Just how much they share is a secret, but we can tell you that the list price is 0.4% per year of shareholder assets held at Schwab, 0.35% at Fidelity and elsewhere.

Does that mean NTF funds impose higher expenses on shareholders than other funds? That's hard to say definitively. They certainly are not the rock-bottom cheapest. Oakmark Equity & Income I, an NTF costing investors 0.93% of assets, is cheaper than its category average, 1.3%, yet pales before Dodge & Cox Balanced (0.54%), a TF fund in the same category.

At least at Fidelity and Schwab, the two biggest supermarkets, NTF bond funds do seem to cost more. The expense ratio for leading NTF bond funds at these shops averages 0.66%, while the average cost of bond funds on the Forbes Best Buy list is 0.37%. Notably absent from their supermarket NTF shelves (and ubiquitous in our Best Buy rankings): Vanguard's famously cheap bond funds.

For sure, the funds paying the NTF freight are hardly desperate no-names. One in four of those on Morningstar's Picks list are NTF funds, and the group includes such well-respected no-load outfits as Ariel, Artisan, Clipper, Janus, Marsico and Third Avenue. In fact, the supermarkets, to their credit, don't often have the sickliest on the NTF shelf. Schwab won't sell you the Grand Prix Fund, whose stinky performance won our Booby Prize this year (*see p. 246*).

But the question remains: Who actually pays NTF fees? The fee to Fidelity and Schwab on the $7.7 billion Oakmark Equity & Income I may be $18 million annually—Oakmark won't say—which as a percentage of assets held there is greater than the entire expense ratio of Vanguard's Wellington fund, a similar offering charging 0.36%. Oakmark's supermarket customers may be getting something of a free ride since they share the supermarket tab with Oakmark's direct buyers. (There's just one 0.93% expense burden; it hits all Oakmark customers equally.) On the other hand the supermarkets are relieving Oakmark's sponsor, Harris Associates, of some paperwork burdens, saving money for all shareholders. The thousands of Oakmark customers who buy through Schwab appear as a single account on Oakmark's books.

Several funds told FORBES they follow a convention in which half the NTF fee (up to 0.2%) is charged to investors, just as accounting or legal fees or some marketing fees are, and the other half comes from the fund sponsor. For penny-wise fund customers the accounting is academic. What matters to them is the expense ratio, not whether Schwab or Harris gets to keep it.

Sponsors pay slotting fees for exposure, of course. The fee-paying pool is where most supermarkets choose their leading funds lists. Schwab touted its version on ads during the Summer Olympics. Money managers from NTF funds are almost always those invited to Schwab's conferences for financial advisers. If you want to play, you've got to pay.

Since going on the NTF shelf 18 months ago, Greenspring Fund, a balanced pool with a good record run by Corbyn Associates, has seen assets jump from $57 million to $121 million. "It was an avenue for us to become better known," says a spokesman. For the right fund, an NTF fee is cheaper for the sponsor than advertising, and cheaper for the investor than going through a broker.

The upshot is that supermarkets now constitute a huge percentage of the ownership of many NTF funds. Schwab and Fidelity accounts make up large amounts of shares at such well-known names as Turner MicroCap (77%), Janus Mid Cap Value (49%) and Baron Asset (51%). At three of Third Avenue's four funds they account for 60% of shares. Once fund sponsors are in the NTF system, it's hard to leave. They don't even know who their supermarket customers are; all these investors (TF and NTF alike) become anonymous.

Surely that's one reason Schwab could raise NTF fees by 0.05 points to 0.4% early last year, even though funds were still reeling from the bear market. "When supermarkets raise fees, funds moan and groan and protest, but most wind up going along," says consultant Bobroff. "They don't have other choices."

But there's good news for investors, too: The Securities & Exchange Commission, as part of its reform effort after the fund scandals, is considering a mandate that would require brokers, even supermarkets, to disclose sales fees before you buy a fund. Says Mercer Bullard, an Ole Miss law professor who heads Fund Democracy, a reformist group: "People would be shocked at the fees they're paying, and some sales wouldn't happen."

Meanwhile, small rebellions are brewing. Last spring E-Trade, whose supermarket is still tiny, disquieted higher-cost rivals by announcing it would rebate up to half of the 12b-1 marketing fees (a component of some expense ratios) and other supermarket charges to customers. One hundred twenty-eight sponsors went along, and a typical rebate is 0.15% of assets. E-Trade just mailed out its first set of rebate checks, totaling $1 million, to 70% of its supermarket customers.

On a different front, Davis Advisors, the sponsor of Selected American and Selected Special Shares, two celebrated no-loads, also recently acted on behalf of shareholders. Until it did, both funds levied 12b-1 fees of 0.25% on all shareholders to help pay supermarket fees. Recognizing that this raises costs for all its investors, even those who buy directly from Davis, the fund sponsor created a new share class for each fund without the 12b-1 fee for direct investors. For Selected American, that cut the expense ratio from 0.93% to 0.68%.

The move provoked a stare-down with Schwab, which ordinarily mandates that a fund list its cheapest share class with the supermarket, but Schwab let the old Davis fund keep its NTF listing for existing customers. If over the next decade Selected American can earn two-thirds of the 14% it averaged annually over the last one, anyone who directly invests $100,000 in the new, non-supermarket fund will be $5,500 ahead. F

All Preferred Lists Are Not Created Equal

Paralyzed by having to choose among the 8,000 funds out there? Both Schwab and Fidelity offer lists that winnow the forbidding pile to 20 or fewer no-loads, in categories such as large-cap, international and taxable bond. Both lists look impressive, especially Schwab's, which is available both online and in a printed version sent to 900,000 customers quarterly. Fidelity's is available for all online. Their lists contain both their own funds and others, plus data on performance, expense and manager tenure.

But buyer beware: These compilations are as helpful as a list of America's top vacation spots that omits everything west of the Mississippi River. That's because they exclude funds that refuse to pay large asset-based fees to the supermarkets. So you'll never see any Transaction Fee funds (so-called because investors must pay to buy them) from fine outfits like Vanguard, Longleaf, Northeast, Meridian and Berwyn. As a result, over half the funds on the Forbes Best Buy *(p. 241)* and Morningstar's Picks rosters aren't even eligible to be on these lists.

These fund families do not pay huge fees to be on supermarkets

- Berwyn
- Bridgeway
- Dodge & Cox
- Fidelity
- Longleaf
- Masters' Select
- Meridian
- McMorgan
- Northeast Investors
- Preferred Group
- Royce
- TIAA-Cref
- T. Rowe Price
- Tweedy, Browne
- Vanguard

The omissions are most striking with bond funds, where low fees often give the Vanguard offerings the edge. But some of Schwab's choices are iffy, and a few are hair-raising: One S&P index fund pick, the Dreyfus S&P 500 fund, charges a shameless 0.52% of assets per year, much more than Schwab's own index fund (0.37%), and three times Vanguard's.

If you want a list, start with ours or Morningstar's, which are the most complete. A more useful tool than Fidelity's leading funds list is its "Fund Evaluator" screener, drawing on all funds it offers, even TFs. Among brokers, TD Waterhouse publishes an online preferred list that is comprehensive and unbiased. The only ineligible funds are its own. —*L. S.*

Moonlight Special

Why pay a load or big expenses to get star fund managers when you can buy the cheaper, better-performing funds they run on the side?

BY MICHAEL MAIELLO

IT'S RARE, BUT SOMETIMES A good manager at an expensive load fund can be found making a little extra money on the side by also running a cheaper, comparable no-load fund. In fund argot, this moonlighting is called "subadvising." Why not go for the cheaper fund where the hotshot manager does extra duty? Especially when the second fund's performance mirrors or even exceeds the star manager's marquee fund.

At the cheaper moonlighting funds we've found *(see table, p. 224)*, the managers have pretty much cloned their day-job funds. The reason that these are hard to find is that subadvisers often aren't trusted to control an entire portfolio. Vanguard uses managers from the AllianceBernstein International Value Fund for the Vanguard International Value Fund. The Alliance managers handle just a quarter of the Vanguard fund's portfolio.

You can get Bill Gross' magic but avoid his high Pimco fees.

But for the handful of subadvised funds where name managers have copycatted their approaches, you can, as the Wall Street saying goes, exploit a few inefficiencies. You don't have to pay a 4.5% upfront sales charge and 0.9% of assets in annual expenses to hire the brain of bond guru William H. Gross. And people are willing to pay richly for that brain. Gross' performance at his primary portfolio, Pimco Total Return Fund ($73 billion in assets), has offered a 7.7% return per year over the last five, beating the average intermediate bond fund by 1.2 percentage points a year.

Meanwhile, Gross also manages the $1.4 billion Harbor Bond Fund, which charges only 0.57% and has no sales load. The Harbor version is up 8.1% over the last five years, besting Gross' Pimco offering by 0.4 points. Thus far this year the Harbor version has gained 1.6%, while Pimco is up 1.3%. Not much

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maybe, though that small difference can mount up over time.

Another comparable Gross offering is the Fremont Bond Fund, which charges expenses of 0.60% and also has no load. The Fremont fund is up 1.5% this year and 8.3% over the last five.

The returns for all three funds have been close since Gross' Pimco fund joined Fremont and Harbor in the retail market in 1997. Fremont has beaten Pimco every year since 2000. Harbor fell behind Pimco in 2000 but has beaten Pimco every year since. Over the past seven years, when investors could buy all three Gross funds, he has logged a 7.2% annual return for Pimco, 7.6% for Fremont and 7.5% for Harbor.

Okay, to be precise, the holdings of these Gross-managed funds aren't identical. Broadly, they fall into the same Morningstar "Intermediate-Term Bond" category. Pimco and Harbor now are closest to each other. Pimco has 21% of assets in U.S. Treasury Notes maturing Sept. 21, Harbor 18%. All three portfolios are distinctly light on corporate debt. Pimco has 1.8% of assets in debt from El Paso Energy and the Williams Cos. Harbor's energy investment is 0.4% of assets in Pacific Gas & Electric bonds. The Fremont fund seems the most daring, with holdings in Brazilian and Peruvian notes, although U.S. Treasurys and Fannie Mae debt dominate its largest five holdings.

Gross doesn't advise investors about whether they should choose the no-loads over Pimco Total Return. A Pimco spokesman says people who use brokers and financial advisers will find the Pimco fund easier to invest in. Plus, Total Return has the longer record, though he admits Gross' strategy is ably at work in all three funds.

You can be a cheapskate in equity funds, too. Christopher Davis and Kenneth Feinberg, managers of the Davis New York Venture Fund, have delivered investors 13% a year for the last decade, beating the S&P 500 by two points. For this talent you are supposed to fork over a 4.75% sales charge. But you can dodge that load by buying Selected American Shares. (Annual expense ratios nearly match at 0.95% and 0.94%.) Davis and Feinberg took over Selected American Shares in 1995, and since then Selected's 12.2% annual return has outpaced the Davis fund's 11%.

The core holdings of these funds are nearly the same. They're so close, in fact, that Morningstar analyst Kunal Kapoor has attached the same writeup to each fund. Both funds have half their assets in financials, and their five biggest holdings are identical: American Express, American International Group, Altria, Tyco and Berkshire Hathaway.

Selected American holds 62 stock positions and Davis 64. The top 25 holdings are the same except that Selected American has H&R Block and CenterPoint Properties, while Davis New York has General Growth Properties and Eli Lilly. Both portfolios sport an average market cap of $33 billion and trade at 15 times next year's earnings. Turnover at Davis is 10%, at Selected American 8%.

Note that a cheaper alternative does not always outperform its more expensive brethren. The AmSouth Small Cap Growth Fund, with a 5.5% load and 1.6% expense ratio, has beaten the Target Small Capitalization Growth Fund, which is a no-load and charges 1%. Since manager Dean McQuiddy took on double management duty in 1999, AmSouth has a 3.7% annual return, while Target has lost 1.3% a year.

When looking for a moonlighting alternative, check out the funds' similarity in holdings and strategy to see if they are at least close. The AmSouth and Target funds might share a manager, yet they have little else in common. AmSouth stocks have an average market cap of $1.1 billion, and the portfolio trades at 19 times next year's projected earnings. Target stocks have an average market cap of $788 million, and the portfolio costs 23 times next year's earnings. The top ten rosters do not overlap.

What about signing up with a good manager's less costly offering in the same fund house? Well-regarded Fidelity manager Karen Firestone's Advisor Large Cap Fund (3.5% load, 1.4% expense) and Fidelity Destiny I (no-load, 0.46%) are a lot alike. But Fidelity will accept new money into Destiny I only if investors commit to investing the same sum monthly for ten years.

Attack of the Clones

At sideline jobs, these first-rank managers replicate the techniques used for their primary portfolios. The moonlighting funds, listed first here next to the manager's name, are far cheaper—and, unlike the primary funds, they don't have loads. A bonus: They post slightly better long-term returns.

MANAGER	FUND	ANNUALIZED TOTAL RETURN[1]	PERFORMANCE YTD	MAXIMUM SALES CHARGE	ANNUAL EXPENSES PER $100
William Gross	Fremont Bond Fund	7.6%	1.5%	No load	$0.60
	Pimco Total Return Fund-A	7.2	1.3	4.50%	0.90
William Gross	Harbor Bond Fund-Inst	7.5	1.6	No load	0.57
	Pimco Total Return Fund-A	7.2	1.3	4.50	0.90
Howard Ward	Gabelli Growth Fund	-1.4	-4.6	No load	1.47
	MainStay Blue Chip Growth-A	-1.8	-4.9	5.50	1.99
Christopher Davis and Kenneth Feinberg	Selected American Shares-S	12.2	1.0	No load	0.94
	Davis New York Venture-A	11.0	1.1	4.75	0.95
Kathleen McCarragher	Preferred Large Cap Growth Fund	-4.7	-3.1	No load	0.94
	Jennison Growth Fund-A	-5.5	-3.1	5.50	1.08

[1]Comparing both funds from date manager started moonlighting through 7/31/04. *Sources: Lipper; Standard & Poor's; Morningstar; Forbes.*

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Revenge of The Nerds

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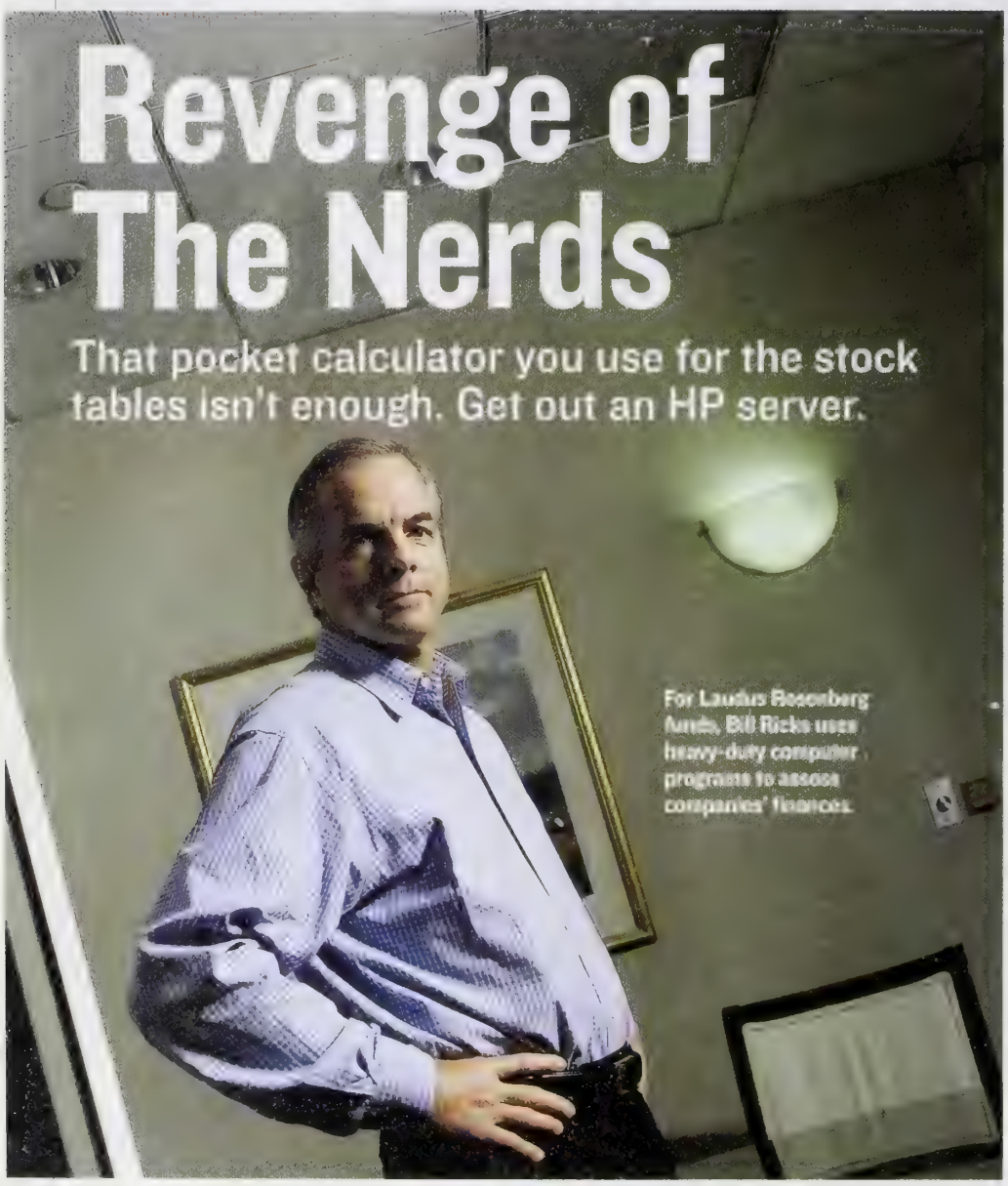

For Laudus Rosenberg funds, Bill Ricks uses heavy-duty computer programs to assess companies' finances.

BY JOHN H. CHRISTY

TO SOME, QUANTITATIVE ANALYSTS ARE OVER-educated nerds who spend too much time playing with fancy calculators and not enough looking company bosses in the eye. For others, the number-crunching crowd conjures up painful images of Long-Term Capital Management, the band of Ph.D.s and Nobel laureates who needed a $3.6 billion rescue to prevent a financial market meltdown.

Don't be put off. There's a lot more to quantitative investing than magic formulas and leveraged bets on teeny interest-rate differentials. These days some of the best minds in finance are using statistical skills and programming prowess to harness old-fashioned fundamental analysis.

"Our approach is to take solid, fundamental, bottom-up analysis and capture that in a set of computer programs," says William Ricks, chief executive of Axa Rosenberg, which manages $45 billion of mainly institutional money using quantitative strategies. The firm also has retail funds, called Laudus Rosenberg. These are among several quant funds available to the masses (*see table, p. 228*).

Ricks, 52, a former accounting and finance professor at Duke and Columbia, draws on a research group of 21 analysts and programmers to pick stocks after mining data on 6,000 companies in the U.S. and twice that number overseas. Helpful hardware: 100 Hewlett-Packard servers and 20 terabytes of storage.

Axa Rosenberg's model involves thousands of multivariate regression calculations, but it all boils down to the same thing that old-fashioned value investors are looking for: an estimate of fair value, which is then compared with current stock prices. Predictable variables go into the valuation measure: sales, assets, capital expenditures, debt. Footnotes, notably including the ones relating to business segment data and to pension plans, also get drawn into the mix.

Ricks' computers appraise companies by comparing them with competitors in each business line. A company like General Electric would be broken apart and compared with other medical equipment, consumer finance and jet engine companies. Citigroup isn't just a bank: Its several divisions are compared with other lenders, insurers and brokers. Key here is the page from a company's annual report describing business segments. For any separate line of business accounting for more than 10% of the total, sales, profit and assets must be shown. (The profit in question is earnings before interest and taxes.)

In this analysis the most important elements are efficiency and profitability. How much does a division generate in revenues and earnings for each dollar of assets employed? There is a fine granularity in the answers. The system counts 170 industries.

Time Warner is evaluated as five distinct business units: AOL,

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cable television, films, networks and publishing. The cable unit, which accounts for 35% of the company's assets, is less profitable than the average cable company, according to Ricks' model, but it earned a $3 billion profit (here, before depreciation, interest and taxes) in 2003, compared with a loss of $7.8 billion in 2002. Ricks and his analysts calculate values for each of these five businesses, add them up, subtract debt and come up with a $21 value for the company. (This is not precisely a liquidating value, since they do not subtract corporate capital gains taxes that might be due on a liquidation.) The stock is off 8% this year at $16.50. Ricks calls it a buy.

Scientific Method

Ricks' Laudus Rosenberg funds aren't the only ones using computer-driven evaluation models for stocks. These other quant-style funds also are laden with professor-managers.

PERFORMANCE UP	PERFORMANCE DOWN	FUND	TOTAL RETURN 5-YEAR ANNUALIZED	TOTAL RETURN LATEST 12 MONTHS	ANNUAL EXPENSES PER $100	TOTAL ASSETS ($MIL)
		Hussman Strategic Growth	NA	9.2%	$1.45	$1,359
		Hussman Strategic Total Return	NA	8.7	0.90 a	109
• C	• A	Laudus Rosenberg Intl Small Cap-Inv	9.3%	34.9	1.50	165
		Laudus Rosenberg US Discovery-Inv	NA	19.8	1.40	151
		LSV Value Equity Fund	6.9	23.0	0.72	296
		N/I Numeric Investors Growth	5.4	21.4	1.49 a	38
		N/I Numeric Investors Mid Cap	4.8	18.4	1.00 a	31
• C	• B	Vanguard Strategic Equity	9.5	19.8	0.50	2,744

Returns through July 31, 2004. Fund rated for three periods only; maximum allowable grade A. a: Net of absorption of expenses by fund sponsor. NA: Not available. *Sources: Forbes; Lipper; Morningstar.*

"The market seems to be assigning a zero value to AOL," Ricks says. AOL's revenue has been flat, but the division's profit rose 37% in the first six months of the year.

Ricks doesn't mind skipping the company visits and conference calls that occupy many money managers. "You can get insights by going out and talking to management," says Ricks. "But by looking at the data in this level of detail, we get insights into whether or not they're really doing the things they say."

Besides slicing and dicing business segment information, Axa Rosenberg's model looks at each company's overall balance sheet, cash flow from operations and net income. Like other fund managers, Ricks uses Wall Street analysts' forecasts, but not their consensus numbers. Axa Rosenberg's database evaluates each individual analyst's past forecasts and puts the most emphasis on those who have been the most accurate.

Company data such as return on assets and return on equity are analyzed with respect to trends in their own performance, and relative to industry averages. But good profits aren't always the best thing in Ricks' model, which draws on the principle of mean reversion. A company whose profitability is slightly below average may look attractive if the trend shows steady improvement toward the mean. Likewise, a company with the highest margins in the business may be something to avoid if there are signs of weakness. Companies also get black marks for too much volatility in earnings, cash levels or even sales.

Take Mercury Interactive, a business-software vendor. "The company is profitable and financially sound," says Ricks. "But the price is too high for what you get in terms of fundamentals."

At a recent $36, Mercury sells for 27 times 2005 estimated earnings. That's not especially expensive for a software outfit, but profits have been volatile: The company earned $41.5 million last year, $65.2 million in 2002 and $34.2 million in 2001. In 2004's first six months the company earned $30.5 million, but net margins have plunged from 21% in 2000 to 8.2% last year. Ricks thinks the stock's true value is closer to $25.

Other considerations: Are inventories growing faster than sales? If they are, that may put pressure on next year's profits as the company works off inventory by cutting prices. The computers compare net income with cash flow from operations and the cash level on the balance sheet. Other things being equal, a company with an overfunded pension plan is more valuable than one with an underfunded one. For pharmaceutical companies, the level of research and development spending is analogous: the more, the better.

But that's just common sense, right? Sure, yet Ricks' model takes it a step further. By using regression analysis, he can pinpoint exactly how much the overfunded plan or the above-average R&D spending is worth.

Situated in Orinda, Calif., Axa Rosenberg was founded in 1985 by Ricks' mentor, UC, Berkeley finance professor Barr Rosenberg. In 1999 Rosenberg sold a 50% stake in the company to French insurance giant Axa's investment management unit for $123 million. Axa now owns 75%.

Ricks' Laudus Rosenberg mutual funds are sold in partnership with Charles Schwab & Co. All research and portfolio management is done by Axa Rosenberg using exactly the same methods as it does for its institutional accounts.

The Laudus Rosenberg U.S. Discovery Fund, which focuses on small- and mid-cap companies, has delivered a 15.4% annualized gain since its launch in October 2001, helped by the overall performance of smaller stocks. The S&P 500 gained an annualized 2.2% during the same period. The fund's largest holdings, as of June 30, included Bausch & Lomb, Host Marriott and Harris Corp., a communications systems designer for the government.

The Laudus Rosenberg International Small Cap Equity Fund is up an annualized 9.3% in the past five years while the Morgan Stanley Capital International EAFE Index gained just 3.2%. Among the holdings: Valeo SA, a French automotive equipment supplier; Fresenius AG, a German healthcare group; Banca Popolare, an Italian bank.

The international small-cap fund sports a Forbes A rating in down markets and a C rating in up markets. With annual expense burdens of 1.4% and 1.5% of assets, the two funds are a bit expensive; but computer programmers do not come cheap. F

100% NO LOAD

One of the "best funds for 2004"*

–*Money*® magazine, 2/04

The T. Rowe Price Blue Chip Growth Fund. Just another reason to choose T. Rowe Price.

Money chose its "best" mutual funds for 2004 based on low fees, long-term fund manager performance, and the quality of the company behind the fund. Our Blue Chip Growth Fund was specifically cited by *Money* magazine as one of "the best." But you can feel confident we apply the same disciplined management approach—backed by our own independent research—to all of our funds. And we have an unwavering commitment to keeping costs low. This approach is just one reason why we can offer a broad range of funds that have outperformed their 1-, 5-, and 10-year Lipper averages as of 6/30/04. Results will vary for other periods.

Figures as of 6/30/04.	1 Year	5 Year	10 Year	Expense Ratio
T. Rowe Price				
Blue Chip Growth Fund	**17.11%**	**-1.61%**	**11.85%**	**0.95%**
Lipper Large-Cap Growth Funds Average	15.56%	-5.36%	8.55%	1.92%
Other funds backed by the same experienced, disciplined approach:				
Balanced Fund	**13.29%**	**3.04%**	**9.58%**	**0.78%**
Lipper Balanced Funds Average	11.65%	1.53%	8.69%	1.46%
Equity Income Fund	**19.79%**	**3.94%**	**12.52%**	**0.78%**
Lipper Equity Income Funds Average	18.27%	1.56%	10.29%	1.59%
Equity Index 500 Fund	**18.73%**	**-2.46%**	**11.52%**	**0.35%**
Lipper S&P 500 Funds Average	18.35%	-2.72%	11.37%	0.81%
Growth Stock Fund	**17.55%**	**1.07%**	**11.91%**	**0.77%**
Lipper Large-Cap Growth Funds Average	15.56%	-5.36%	8.55%	1.92%

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Average annual total return figures include changes in principal value, reinvested dividends, and capital gain distributions. *Based on a *Money* magazine survey (1/15/04) of the 100 largest fund companies (59 of which participated). Companies that were deemed trustworthy were those that scored high on this comprehensive survey of industry practices and policies. Funds were chosen because of their lower expenses and their managers' long-term records. (Source for Lipper data: Lipper Inc.) T. Rowe Price Investment Services, Inc., Distributor. MPBCG070028

The Frugal Investor

You can't always beat the market. But you can beat the leaden weight of oversize money management costs. Just find a good fund vendor who runs a lean operation.

BY JAMES M. CLASH

AAM's Knox Fuqua: "People think they can only get money managed well in expensive places like New York."

WHY DO MUTUAL FUNDS CHARGE SO MUCH? THE smaller, newer ones argue that they need high fees to get started. The theory is that, once they attract a wad of assets, economies of scale will bring down the fee in percentage terms. Alas, this doesn't happen very often. Fund-tracker Lipper calculates that the average size of diversified domestic equity funds has doubled over the past ten years to $1.4 billion, but still the average expense ratio hasn't gone down a whit. AllianceBernstein Growth & Income doubled its assets in the past five years (to $7.2 billion) and still managed to jack up annual expenses from 95 cents per $100 of assets in 1999 to $1.22 last year.

You don't have to put up with this. Look around and you can find small funds with good records and below-average expense burdens. If you don't mind their size, you can also find large funds with good records and way-below-average expenses. That's what the Forbes Best Buy lists are all about *(see p. 241)*. Here we focus on the former group—smallish funds with moderate costs *(see table, p. 232)*. The first five no-loads have beaten the S&P 500 index over the past five years. As small fry, they can be more nimble in their investments than the large funds, whose buy and sell orders have the risk of moving prices away from them.

Among this select group of small funds, Appalachian Asse

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Management in Charleston, W.Va. shows how it is done. The one-man outfit—Knox Fuqua is the owner—runs AAM Equity Fund. Despite its scant $13 million in assets, it charges just $1.15 in annual expenses per $100. Over the last five choppy years AAM Equity has beaten the market by an average annual 1.2 percentage points.

Fuqua plans to reduce his expenses to a flat $1 once the fund gets to $50 million in assets. If all stock funds did something similar, shareholders collectively would save something like $8.6 billion in annual fees.

Fuqua, 45, entered the financial world at First American Bank in Nashville as an analyst earning $17,000 per year, hardly a Wall Street-size salary even two decades ago. In 1988 he moved to Charleston to manage trust portfolios for Key Centurion Bank (now part of J.P. Morgan Chase), then founded AAM in 1992 to handle private clients. In 1998 he added the mutual fund. "It amazes me what people say it takes to run a fund," he says. "It's not something where you need a huge research staff, five computers and six secretaries."

Fuqua uses the popular GAARP (growth-at-a-reasonable price) investment approach, somewhere between growth and value. His portfolio of 47 mostly large (median market cap: $38 billion) stocks trades at 23 times trailing earnings, versus 20 for the market. In addition to AAM Equity, Fuqua still manages $15 million in private money which, he readily admits, helps keep expenses down.

His advice to fee-hungry fund operators:

(1) Keep overhead low. Fuqua leases third-floor office space in downtown Charleston for $330 per month, utilities included, with a nice view of the Kanawha River thrown in. He forks over a few hundred dollars more for phone and Internet lines. As for staff, he has none, other than himself. He use small-fund service company called Unified Fund Services handle checks and account statements. For Fuqua's 101 sha holders, he spends $90,000 a year, or 69 cents per $100 assets, on Unified.

The stock picker doesn't need a lavish salary. Fund fees p what Fuqua charges for managing private accounts all flow AAM, out of which he keeps $100,000 in salary.

(2) Do your own research. "The Internet is a beautiful thin says Fuqua. He accesses public company records, anal reports and the like online. He avoids costly travel to com nies. Just as important, Fuqua esche the use of soft dollars—the questi able, if widely used, practice of buy research by throwing overpriced co mission work to investment firms. "Y often end up paying brokerage whole lot more than what the prod or service is really worth," says Fuq AAM spent 15 cents per $100 on co missions in its last fiscal year (the nu ber, not included in the expense ra can be found on SEC form NSAR). contrast, Van Wagoner Small-C Growth spent $4.08.

(3) Buy and hold. Fuqua turns o his portfolio's holdings 34% annua the average stock fund's turnover 103%. For the fund operator, stand pat saves him from paying the sala of traders; for the shareholder, reduces capital gains taxes.

(4) Don't pay for distribution. Tw thirds of equity funds assess so-cal 12b-1 fees to cover marketing co (ostensibly to build assets and thus lower the percentage expe burden); AAM doesn't have one. Many funds also pay fees fund supermarkets like Charles Schwab & Co. to retail th products *(see p. 216)*; AAM won't go along. Fuqua uses two— Waterhouse and Fidelity—but he says he doesn't pay them carrying his funds.

As for customers, he finds them mainly through word mouth. "I've tried to create a fund for the common person," says, "for the long-term investor. The problem is that most pe ple think they can only get money managed well in expens places like New York."

All this low-key marketing means it will be a long wh before Fuqua gets rich off this venture, but his shareholders be a lot better off.

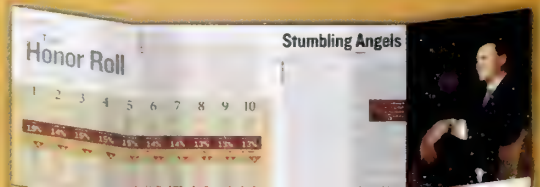
If These Guys Can Do It ...

The first five funds, all under $70 million in assets, charge less than the diversified domestic equity annual expense average of 1.29%. Further, they have market-beating returns. Larger counterparts (second group of five) can learn lessons here about costs.

FUND	ANNUALIZED FIVE-YEAR TOTAL RETURN	ASSETS 7/31/04 ($MIL)	MAXIMUM SALES CHARGE	ANNUAL EXPENSES PER $100
THE FRUGAL				
AAM Equity Fund	-1.0%	$13	No load	$1.15
Constellation Clover Core Value-I	8.0	59	No load	1.13
ICAP Discretionary Equity	1.4	32	No load	0.80
Sirach Special Equity-Inst	-0.3	27	No load	1.07
SSgA Aggressive Equity	9.7	67	No load	1.10
THE BIG SPENDERS				
AIM Dent Demographic Trends Fund-A	-7.2	478	5.50%	2.00 a
AllianceBernstein Small Cap Growth Fund-A	-3.3	382	4.25	2.32
Olstein Financial Alert Fund	9.3	1,910	1.00	2.21
Quaker Aggressive Growth-A	10.9	302	5.50	2.16
STI Classic Small Cap Value Equity-L	12.7	717	2.00	2.31

Performance through July 31. a: Net of absorption of expenses by fund sponsor.
Sources: Forbes; Lipper; Morningstar.

Turn the page for Honor Roll and Thompson profile



THE FINANCIAL CONSULTANT REPORTS DIRECTLY TO YOU.

The Honor Roll

Funds earning a place on this select list are like Olympic marathoners, not sprinters. They must display stamina and endurance.

1	2	3	4	5
Calamos Growth Fund-A	Muhlenkamp Fund	Thompson Plumb Growth Fund	Weitz Partners Value Fund	W V F
Multiple managers	Ronald Muhlenkamp	Multiple managers	Wallace Weitz	Walla
800-582-6959	800-860-3863	800-999-0887	800-232-4161	800-
ANNUAL TOTAL RETURN[1] 19%	ANNUAL TOTAL RETURN[1] 14%	ANNUAL TOTAL RETURN[1] 15%	ANNUAL TOTAL RETURN[1] 15%	ANNUAL T 15
MARKET PERFORMANCE UP A+ DOWN B	MARKET PERFORMANCE UP B DOWN B	MARKET PERFORMANCE UP B DOWN A	MARKET PERFORMANCE UP C DOWN A	MARKET UP C
RESULTS ON $10,000 INVESTED[2] $49,956	RESULTS ON $10,000 INVESTED[2] $38,351	RESULTS ON $10,000 INVESTED[2] $37,447	RESULTS ON $10,000 INVESTED[2] $35,627	RES $10,00 $3
MAXIMUM SALES CHARGE 4.75%	MAXIMUM SALES CHARGE NO LOAD	MAXIMUM SALES CHARGE NO LOAD	MAXIMUM SALES CHARGE NO LOAD	MAXIMUM NO
ANNUAL EXPENSES PER $100 $1.31	ANNUAL EXPENSES PER $100 $1.18	ANNUAL EXPENSES PER $100 $1.05	ANNUAL EXPENSES PER $100 $1.13	ANNUAL EXP $
YEARLY PORTFOLIO TURNOVER[3] 54%	YEARLY PORTFOLIO TURNOVER[3] 9%	YEARLY PORTFOLIO TURNOVER[3] 41%	YEARLY PORTFOLIO TURNOVER[3] 11%	YEARLY PORT 1

[1] Total return (average annual) for domestic funds; from 1/31/94 to 7/31/04 before deducting loads and taxes. [2] Hypothetical value on 7/31/04 of $10,000 invested 1/31/94, after load and taxes. Assumptions: Capital gai

FOR 117 YEARS,
ONE FINANCIAL COMPANY HAS STUCK WITH
THE SAME ORGANIZATIONAL CHART.

BY WILLIAM HEUSLEIN

If you knew the market was headed up, picking the best funds to buy would be as simple as picking the riskiest ones—since funds buying high-risk growth stocks do the best during bull markets. Since you don't know which way the market will go, you have to think about capital preservation. We do that in our Honor Roll. The list is limited to funds that have not only done well over the past decade but also have done well during bear markets.

The ten-member Honor Roll of 2004 looks a lot like last year's group. Six make a return appearance—four of them for a second year in a row, two for much longer. Muhlenkamp Fund is back for the fourth consecutive year and Weitz Value Fund for the fifth. Manager Wallace Weitz is a star achiever, and another of his funds, Weitz Partners Value, joins the roster for a second year. Both Weitz funds have big positions in Berkshire Hathaway, Caesars Entertainment, Comcast and Liberty Media. Third Avenue Value Fund, run by Martin Whitman, 79, returns to the list after a one-year absence. The three Honor Roll newcomers: Fidelity Dividend Growth, Keeley Small Cap Value and Osterweis.

Our criteria for making the list are stringent. We consider performance over four market cycles, starting Jan. 31, 1994. A fund must earn a B grade or higher during market downturns. Second, we want to see continuity of management, with the lead manager on the job for at least six years. That knocked out Main & Power Growth, whose longtime manager retired this June.

Our third requirement is portfolio diversification, so fine sector funds like Vanguard Health Care are excluded. Next, Honor Roll funds must be willing to take new money, which keeps out such good ones as Wasatch Core Growth and FPA Capital.

Long-term performance is our fifth criterion, based on the hypothetical results after taxes and sales commissions (if any) for a upper-income investor who put $10,000 to work on Jan. 31, 1994. We figure in tax on distributed capital gains but not on the unrealized appreciation in the fund's shares. Investing in any of our Honor Roll members would have tripled your money at least. With Calamos Growth Fund-A, it would be up fivefold, despite a 4.75% load.

On performance, Excelsior Value & Restructuring Fund qualifies. But it has come out that Excelsior adviser U.S. Trust permitted some institutions to conduct market timing in eight as-yet-unidentified funds. We join Morningstar in recommending that investors not send money to this fund family.

6	7	8	9	10
Keeley Small Cap Value Fund	Osterweis Fund	Torray Fund	Third Avenue Value Fund	Fidelity Dividend Growth
John Keeley Jr	John Osterweis	Multiple managers	Martin Whitman	Charles Mangum
888-933-5391	866-236-0050	800-443-3036	800-443-1021	800-544-6666
ANNUAL TOTAL RETURN[1] 14%	ANNUAL TOTAL RETURN[1] 14%	ANNUAL TOTAL RETURN[1] 13%	ANNUAL TOTAL RETURN[1] 13%	ANNUAL TOTAL RETURN[1] 13%
MARKET PERFORMANCE UP C DOWN A	MARKET PERFORMANCE UP B DOWN B	MARKET PERFORMANCE UP B DOWN B	MARKET PERFORMANCE UP B DOWN B	MARKET PERFORMANCE UP B DOWN B
RESULTS ON $10,000 INVESTED[2] $35,077	RESULTS ON $10,000 INVESTED[2] $33,813	RESULTS ON $10,000 INVESTED[2] $33,456	RESULTS ON $10,000 INVESTED[2] $32,949	RESULTS ON $10,000 INVESTED[2] $31,505
MAXIMUM SALES CHARGE 4.50%	MAXIMUM SALES CHARGE NO LOAD	MAXIMUM SALES CHARGE NO LOAD	MAXIMUM SALES CHARGE NO LOAD	MAXIMUM SALES CHARGE NO LOAD
ANNUAL EXPENSES PER $100 $1.75	ANNUAL EXPENSES PER $100 $1.36	ANNUAL EXPENSES PER $100 $1.11	ANNUAL EXPENSES PER $100 $1.09	ANNUAL EXPENSES PER $100 $ 0.96
YEARLY PORTFOLIO TURNOVER[3] 39%	YEARLY PORTFOLIO TURNOVER[3] 58%	YEARLY PORTFOLIO TURNOVER[3] 37%	YEARLY PORTFOLIO TURNOVER[3] 11%	YEARLY PORTFOLIO TURNOVER[3] 35%

butions are taxed at the highest marginal rate in effect at the t... Loads applied at 7/31/04 rate [3]Lesser of security sales or purchases divided by average net assets

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Stumbling Angel

One way to make the Honor Roll: John Thompson earns good money on some sorry-looking blue chips.

BY WILLIAM HEUSLEIN

TAKE A GLANCE AT JOHN C. THOMPSON'S PORTFOLIO AND YOU'D think you're looking at a bunch of injured and aching players in the trainer's room: Cardinal Health, Viacom, Coca-Cola, Pfizer, even scandal-besmirched Tyco International.

Where some other investors only see decline and decelerating growth, second-generation money manager Thompson, 35, sees a pack of angels who have only stumbled. "We're looking for a short-term problem where the market anticipates a long-term problem," he says.

In something of the manner of John Neff, who delivered high returns for years at Vanguard Windsor by owning out-of-favor banks and carmakers, Thompson has amassed an exceptional long-term record with his unloved stocks. For the second time Thompson Plumb Growth Fund has earned a spot on the Forbes Honor Roll. The $1.4 billion portfolio scores a down-market grade of A by our reckoning, meaning it has done quite well at preserving capital over the long haul, and a respectable B grade for up-market performance.

For the past decade, since Thompson joined his dad, John W., 61, as comanager, the Growth Fund has an annualized total return of 15.1%, or five percentage points more than the S&P 500. (The son runs the portfolio now, with advice from his father.) And as tracked by researcher Morningstar, the fund's performance places it in the highest 1% of large-blend portfolios, which have a mix of growth and value stocks. The investing masses discovered the Thompsons only recently. As late as 2000, when the crowds were enamored with the Internet and other glamorous sectors, Thompson Plumb Growth had assets of just $80 million.

The Growth Fund's original investment adviser, Thompson, Plumb & Associates in Madison, Wis., split into two entities at the start of this year: Thompson Investment Management and Wisconsin Capital Management, divvying up assets and management responsibilities. The senior Thompson and Thomas G. Plumb, who took over the Wisconsin Capital piece of the business, were partners for 20 years before they decided to dissolve their jointly owned firm. Wisconsin Capital runs two other Thompson Plumb funds but has nothing to do with the Growth Fund.

Flying solo lately, young Thompson takes issue with such prominent elders in the value realm as James Gipson of Clipper Fund and Mason Hawkins of Longleaf Partners. These two have amassed huge cash positions because they perceive a dearth of appealing investment opportunities. Thompson is fully invested. "It's quite possible that many of the value stocks have become more expensive," he says. "But there are quite a few more growth names that are very attractive right now that may never get cheap enough for the value camps to ever buy."

If you want cheap growth, consider these stocks from son's portfolio: Fannie Mae, State Street and ChevronTex are, in some measure, damaged goods. You're not goin growth company at a discount unless it has some proble has quadrupled its earnings per share over the past deca has a cloud hanging over it from Freddie Mac's accountin But Thompson says that's made the stock very cheap a changed its growth outlook. Fannie makes up 8% of the

It takes some stamina to lean against the prevailing 1999 Thompson stayed away from 100-times-earnings t and turned in a laggardly 6% gain. Says Thompson, "We of our accounts because we were sticking to our discipline. You have to go through these periods where what you're doing looks dumb or out of favor."

Young Thon has beaten the 500 over ten by 5 p

A fallen-angels strategy is hardly infallible and requires much patience. In 2002, a year that spare vestors, the Growth Fund lost 20% (when the market 22%) in its only negative year since its 1992 launch. A stinkers were Conseco and Time Warner. But good fo lowed, and in 2003 the fund was up 32%. Thus far Thompson is running roughly even with the market.

Whereas in 2003 the most speculative stocks turned i returns, Thompson thinks that high-quality compani start to pay again. In particular, Thompson feels optimi Microsoft (his second-biggest holding, at 6% of assets) (5%). Priced at 23 and 16 times trailing earnings, respect are cheaper than usual. The perceived threat to Micros emergence of freebie software like Linux; to Pfizer, exp some blockbuster patents. Thompson is not as worried of Wall Street is. Both companies, he says, are constantl new intellectual capital.

He has another 13% in media stocks—Viacom, Tim Clear Channel, Comcast, Reuters, Liberty Media and Hill. Says Thompson: "There's sort of a strange situa Viacom. The stock is extremely weak, but the underlying is doing great."

This is one fund where the managers' interests are ali yours. Together the two Thompsons have all of their pub investments, $4 million, in the fund, matching their inte those of their fellow shareholders.

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Best Buys

Low costs and prudent investing.

Some people pick funds with a rearview mirror. They want the ones that went up the most in the past. Alas, past performance is only a feeble indicator of future results. So, our Best Buy rankings give equal weight (in the case of bond funds, more than equal weight) to low costs. Cost is one aspect of money management in which the past is a good predictor of the future.

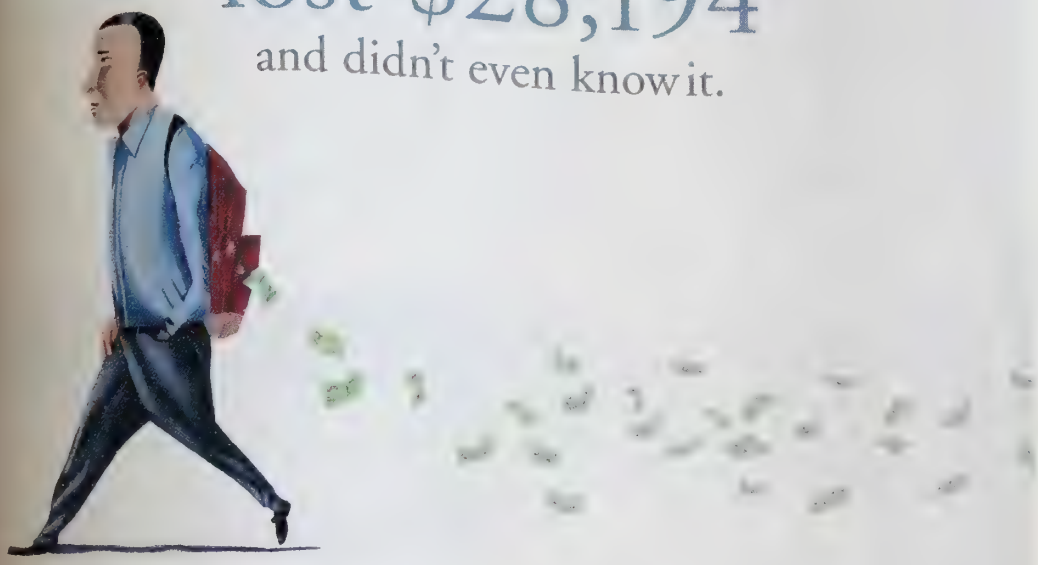
NCE	FUND/800 PHONE	5-YEAR ANNUALIZED TOTAL RETURN	1-YEAR TOTAL RETURN	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	TAX GRADE	ANNUAL EXPENSES PER $100	MINIMUM INITIAL INVESTMENT
	STOCK FUNDS								
	T Rowe Price Capital Appreciation/225-5132	12.1%	18.7%	$3,772	29	$12.2	5	$0.79	$2,500
	Target Small Cap Value/225-1852	14.4	29.4	216	23	1.5	5	0.93	25,000
	T Rowe Price Mid-Cap Value/225-5132	13.1	24.5	3,148	29	4.1	4	0.85	2,500
	UMB Scout Small Cap/996-2862	11.1	27.7	115	29	0.6	4	0.87	1,000
	Pennsylvania Mutual-Inv/221-4268	13.3	21.8	1,588	27	0.7	5	0.93	2,000
	Mairs & Power Growth Fund/304-7404	10.3	18.6	1,643	22	13.7	4	0.75	2,500
	Vanguard Strategic Equity/662-7447	9.5	19.8	2,744	24	2.6	4	0.50	3,000
	Meridian Growth/446-6662	13.9	20.0	1,231	30	2.2	5	0.95	1,000
	Meridian Value Fund/446-6662	15.8	18.1	2,147	27	4.2	3	1.11	1,000
	Yacktman Fund/525-8258	11.4	17.2	339	23	18.2	3	0.94	2,500
	BALANCED FUNDS								
	Vanguard Wellesley Income-Inv/662-7447	7.2	7.9	9,992	18	36.1		0.31	3,000
	Dodge & Cox Balanced Fund/621-3979	9.7	14.6	17,269	21	18.7		0.54	2,500
	Berwyn Income Fund/992-6757	8.5	9.8	163	18	1.6		0.67	3,000
	Oakmark Equity & Income-I/625-6275	11.8	14.5	7,705	22	11.2		0.93	1,000
	Fidelity Convertible Securities/544-6666	8.5	10.7	1,740	NA	7.5		0.82	2,500
	INDEX FUNDS								
	Vanguard REIT Index-Inv/662-7447	14.7	20.1	4,578	32	2.9	5	0.24	3,000
	Vanguard Small-Cap Index-Inv/662-7447	6.2	20.0	7,933	28	1.2	4	0.27	3,000
	Vanguard Total Stock Mkt Index-Inv/662-7447	-1.1	13.7	48,054	26	22.1	2	0.20	3,000
	Vanguard Balanced Index-Inv/662-7447	2.4	10.1	6,450	26	22.0		0.22	3,000
	GLOBAL FUNDS								
	Pearl Total Return/866-747-9030	8.4	19.7	63	NA	2.2	5	0.98 a	1,000
	RS Contrarian Value/766-3863	13.3	32.0	288	21	3.8	1	1.49 a	5,000
	Exeter World Opportunities Series-A/466-3863	7.4	26.7	133	25	6.3	5	1.26	2,000
	Polaris Global Value/888-263-5594	9.5	25.2	80	16	4.3	3	1.75	2,500
	American Funds Cap World Grow & Inc-A/421-4120	7.7	24.3	24,379	22	16.0	5	0.81	250
	FOREIGN FUNDS								
	Vanguard International Explorer/662-7447	7.1	34.3	1,412	21	1.1	5	0.73	25,000
	Preferred International Value/662-4769	5.2	25.9	530	20	17.0	5	1.03 a	1,000
	Fidelity Diversified International/544-6666	6.7	24.2	17,369	NA	7.8	3	1.22	2,500
	Oakmark International Fund-I/625-6275	7.3	23.6	4,120	18	10.5	3	1.25	1,000
	T Rowe Price International Discovery/225-5132	10.0	36.0	811	23	0.7	4	1.32	2,500
	EUROPEAN FUNDS								
	Fidelity Europe Fund/544-6666	0.6	26.5	1,560	24	11.3	4	1.01 a	2,500
	Fidelity Europe Capital Appreciation/544-6666	2.6	19.5	391	24	5.3	2	1.32	2,500
	Fidelity Nordic/544-6666	1.7	29.1	99	24	5.2	1	1.40	2,500
	PACIFIC FUNDS								
	Fidelity Japan Smaller Cos/544-6666	2.4	56.7	1,441	36	1.1	5	1.12	2,500
	T Rowe Price New Asia/225-5132	3.1	18.8	806	22	3.5	2	1.08	2,500
	Fidelity Southeast Asia/544-6666	2.2	15.4	417	22	4.7	3	1.32	2,500

Performance Up Down		Fund/800 Phone	5-Year Annualized Total Return	1-Year Total Return	SEC Yield	Assets 7/31/04 ($Mil)	Weighted Average Maturity (Years)	Annual Expenses Per $100	Min Inv
		TAXABLE-U.S. TREASURY							
A+	D	Vanguard Intermediate Treasury-Inv/662-7447	7.6%	3.5%	3.2%	$3,784	5.3	$0.26	$3
A+	F	Vanguard Long-Term Treasury-Inv/662-7447	8.3	6.7	4.6	1,797	16.9	0.26	3
A+	F	American Century Target 2010-I/345-2021	9.0	4.8	3.8	221	7.5	0.59	2
A+	F	American Century Target 2015-I/345-2021	9.6	9.3	4.9	144	11.6	0.59	2
		TAXABLE-GINNIE MAE							
C	B	Vanguard GNMA Fund-Inv/662-7447	6.9	5.0	4.9	23,399	3.7	0.20	3
C	B	Fidelity Ginnie Mae/544-6666	6.4	4.0	3.6	3,963	3.8	0.57	2
C	C	USAA GNMA Trust/531-8448	6.3	4.0	3.7	604	4.2	0.47	3
C	B	Dreyfus Basic US Mortgage Secs/782-6620	6.9	4.9	3.7	244	1.9	0.68	10
		TAXABLE-JUNK							
D	A	NB High Income Bond-Inv/877-9700	6.9	9.1	NA	704	4.9	0.90a	2
D	A	Janus High-Yield/525-8983	6.0	10.4	NA	515	6.5	0.95	2
A	B	American Funds American High-Inc-A/421-4120	6.2	12.8	5.8	8,991	5.5	0.75	
D	A	Vanguard High-Yield Corp-Inv/662-7447	4.7	10.0	6.6	8,855	6.7	0.23	3
		TAXABLE-SHORT-TERM							
D	B	Vanguard Short-Term Federal-Inv/662-7447	5.8	1.8	2.3	3,174	2.1	0.22	3
D	B	Vanguard Short-Term Bond Index-Inv/662-7447	5.8	2.2	2.4	4,719	2.7	0.20	3
D	A	Vanguard Short-Term Inv Grade-Inv/662-7447	5.7	2.3	3.0	17,822	2.7	0.21	3
B	C	Fidelity Spartan Invest Grade Bond/544-6666	7.3	5.4	3.2	2,367	NA	0.50	25
		TAXABLE-MEDIUM-TERM							
A	D	Vanguard Long-Term Inv Grade-Inv/662-7447	7.7	4.9	4.5	4,339	6.0	0.20	3
A+	D	Vanguard Intermediate Bond Index-Inv/662-7447	7.9	5.5	4.4	3,981	7.5	0.20	3
A	C	TIAA-CREF Bond Plus-Retail/223-1200	7.3	4.8	3.5	444	6.4	0.30	2
B	B	Dodge & Cox Income Fund/621-3979	7.7	4.5	NA	6,833	5.6	0.45	2
		TAXABLE-LONG-TERM							
A+	D	American Century Inflation-Adj Bond-Inv/345-2021	8.9	9.2	4.6	655	10.7	0.50	2
A+	F	Vanguard Long-Term Bond Index/662-7447	8.8	8.3	5.4	1,089	20.1	0.20	3
A+	F	Vanguard Long-Term Inv Grade-Inv/662-7447	8.3	8.5	5.5	4,467	21.3	0.28	3
B	C	McMorgan Intermediate Fixed Income/788-9485	6.2	3.6	NA	174	10.0	0.50	5
		MUNICIPAL-SHORT-TERM							
D	A+	Vanguard Limited Term Tax-Exempt-Inv/662-7447	4.3	2.0	1.9	6,752	2.7	0.17	3
D	A	Fidelity Spartan Short-Intermed Muni/544-6666	4.5	2.5	1.8	1,722	3.3	0.49	10
D	B	Federated Intermediate Municipal-IS/341-7400	4.9	4.7	2.8	157	4.7	0.60a	25
F	A+	Vanguard Short-Term Tax-Exempt-Inv/662-7447	3.3	1.3	1.3	4,585	1.2	0.17	3
		MUNICIPAL-MEDIUM-TERM							
A+	D	Vanguard Insured Long-Term Tax-Exempt-Inv/662-7447	6.2	5.8	3.5	2,875	8.0	0.17	3
A+	F	Vanguard Long-Term Tax-Exempt-Inv/662-7447	6.1	6.2	3.6	1,873	8.2	0.17	3
C	B	Vanguard High-Yield Tax-Exempt-Inv/662-7447	5.5	6.2	4.0	4,138	7.8	0.17	3
D	B	Vanguard Intermediate Tax-Exempt-Inv/662-7447	5.3	4.4	3.0	11,527	5.9	0.17	3
		MUNICIPAL-LONG-TERM							
A	C	Fidelity Spartan Municipal Income/544-6666	6.4	6.1	3.4	4,550	15.1	0.47	10
A	D	USAA Tax-Exempt Long-Term/531-8448	5.9	7.0	3.7	2,185	14.7	0.54	3
B	C	T Rowe Price Tax-Free Income/225-5132	5.7	6.1	3.4	1,427	14.5	0.54	2
A+	F	Safeco Municipal Bond-Inv/624-5711	6.3	6.9	4.1	556	22.6	0.61	2
		MUNICIPAL-ONE STATE							
A	D	Vanguard Calif Long-Term Tax-Exempt-Inv/662-7447	6.1	5.9	3.6	1,939	7.6	0.17	3
A	D	Vanguard Mass Tax-Exempt/662-7447	5.9	5.0	3.5	422	6.7	0.16	3
A	D	Vanguard NJ Long-Term Tax-Exempt-Inv/662-7447	6.0	5.8	3.3	1,501	7.3	0.17	3
A	D	Vanguard NY Long-Term Tax-Exempt-Inv/662-7447	6.2	6.5	3.2	2,091	7.5	0.17	3
A	C	Vanguard Penn Long-Term Tax-Exempt-Inv/662-7447	6.2	5.5	3.3	2,254	6.8	0.17	3

Five year return 7/31/99 through 7/31/04. •Fund rated for three periods only (two for junk bond funds); maximum allowable grade A. a: Net of absorption of expenses by fund sponsor. †Tax efficiency based on past performance: ranking from 1 (best) to 5 (worst). NA: Not available. *Sources: Forbes; Lipper; Morningstar.*

FOR MORE FUNDS GO TO: WWW.FORBES.COM/FU

This is the story
of the investor who
lost $28,194
and didn't even know it.



There are investors who choose to believe that the fees charged for managing a mutual fund involve money they weren't entitled to in the first place. Truth is, it's all yours. And the impact of fees on performance over time can be significant.

For example, take a hypothetical fund with an expense ratio of 1.3 percent versus one with an expense ratio of just 0.3 percent. Applied to an initial investment of $5,000, with subsequent annual investments of $5,000 returning 8 percent, and compounded over 20 years, the difference adds up to a not-so-insignificant $28,194. In your account.

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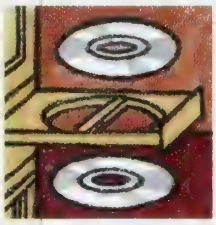
Sector Funds

Narrowly targeted funds are something of a roulette game. At the least, you should minimize the house take.

BY FEI MEI CHAN

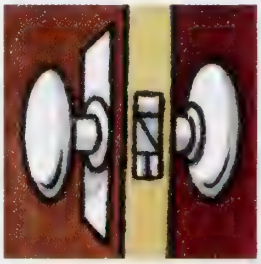
IF YOU MAKE MONEY WITH A SECTOR FUND, IT'S PROBABLY because you were more lucky than smart. Still, they have their uses, and on this page we pluck from the category a handful of Best Buys that combine good risk-adjusted performance with low costs. What, besides satisfying a gambling urge, can sector funds do for you? They might provide quick balance to a lopsided portfolio. If you have assembled your own collection of individual stocks that includes, say, no banks, you could add a financial-sector fund. Alternatively, if you are employed by a technology outfit, it could make sense to diversify your risks by buying an assortment of sector funds that excludes this industry.



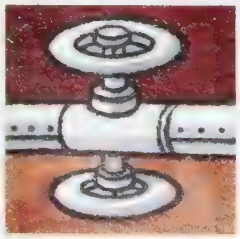
TECHNOLOGY For a casino game it's hard to beat technology. The average tech fund earned 55.9% last year and lost 10.6% in the first seven months of 2004. One of the best: Fidelity Select–Software/Computer Services, with a 3.5% annualized return over the past five years, versus –2.2% for the S&P 500. Its expenses of $1.06 per $100 of assets are half the sector average.

PERFORMANCE UP	DOWN		5-YEAR ANNUALIZED TOTAL RETURN	ANNUAL EXPENSES PER $100
A+	D	Fidelity Select–Software/Comp Svc	3.5%	$1.06 a
A+	F	Fidelity Select–Electronics	–5.9	1.06 a
A+	F	Fidelity Select–Technology	–6.9	1.14 a
•A	•F	Information Age Fund	–5.0	1.62

REAL ESTATE This sector averaged a gain of 37.1% in 2003 and, despite rising interest rates, another 6.2% for 2004 to date. Our Best Buys are not bull market leaders; the best of the lot, CGM Realty, is rated C in up markets.



PERFORMANCE UP	DOWN		5-YEAR ANNUALIZED TOTAL RETURN	ANNUAL EXPENSES PER $100
F	A+	Fidelity Real Estate Investment	16.1%	$0.83 a
•F	•A	American Century Real Estate-Inv	16.2	1.17
C	•A	CGM Realty Fund	20.3	0.98
F	A+	Cohen & Steers Realty Shares	15.5	1.04



ENERGY MacKenzie Davis, analyst at RS Investments in San Francisco, says that last year marked the beginning of a two- to three-year cycle of rising demand and tight supply for natural resources. The RS Global Natural Resources has a five-year annualized return of 15.8%, versus 10.9% for the sector.

PERFORMANCE UP	DOWN		5-YEAR ANNUALIZED TOTAL RETURN	ANNUAL EXPENSES PER $100
C	A	Vanguard Energy Fund-Inv	14.7%	$0.37
D	A	T Rowe Price New Era	9.8	0.69
C	A	Fidelity Select–Natural Gas	11.7	1.14 a
D	A	RS Global Natural Resources	15.8	1.49 a

FINANCIAL SERVICES As a group, financial service funds have paced the market this year. The four funds to the right have exemplary records for their performance during down markets, rating A or above. Fidelity Select–Home Finance scores a FORBES grade of A+ for down markets and C for up markets. Expenses for this fund run $1.10 per $100 in assets. F

PERFORMANCE UP	DOWN		5-YEAR ANNUALIZED TOTAL RETURN	ANNUAL EXPENSES PER $100
C	A+	Fidelity Select–Home Finance	12.5%	$1.10 a
•C	•A	T Rowe Price Financial Services	9.3	0.92
•D	•A	FBR Small Cap Financial	20.3	1.57
D	A+	Fidelity Select–Insurance	10.7	1.23 a

Five -year return 7/31/99 through 7/31/04. •Fund rated for three periods only; maximum allowable grade A. a: Net of absorption of expenses by fund sponsor. *Sources: Forbes; Lipper.*

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Booby Prize

Blind faith in bubble-era stocks and a relentless turnover make the Grand Prix Fund a vehicle you don't want to be riding.

BY DANIEL KRUGER

WHEN DOES STICKING TO your beliefs shift from admirable fortitude to blind stubbornness? If anyone embodies that question, it is Robert Zuccaro, manager of the Grand Prix Fund. Alas, the grand prize of which this fund is especially deserving has the word "booby" in its name.

Zuccaro, winner of this year's Booby Prize, is a bull. He buys high-priced growth stocks and holds them for a short while. It's a momentum strategy, essentially: He buys shares of companies with strong price and profit growth and a record of positive earnings surprises. Recent holdings (as of the June 30 quarterly statement) include the personal products firm Helen of Troy and the credit card processing company Ipayment, which he has since sold.

The strategy works well enough in bull markets; Grand Prix returned 112% in 1998 and 148% in 1999. It hasn't worked lately. Yet Zuccaro remains a true believer. "If you're going to pursue the biggest returns in the stock market you have to accept, by definition, the biggest volatility," he says.

Volatility? Volatility is not so bad. It's losing money that hurts. Had you invested $100,000 with Zuccaro five years ago you would today be down to $29,000.

Zuccaro's bull-era mantra is that the personal computer has helped create an "economic miracle." Companies like Yahoo and Ebay are increasing profits so fast that price/earnings ratios around 100 are becoming commonplace, he says, and justified. And while many view the economy as still in recovery, Zuccaro sees an ongoing and unprecedented boom. "We are in the early stage of a major bull market that will carry for years," he believes.

Grand Prix's dubious performance does not come cheap. Investors pay a 5.25% front load on top of an onerous 2.5% in annual expenses. They typically are enlisted from Grand Prix's broker and advisory firms, among whom Zuccaro counts 200 relationships. Zuccaro acknowledges the fees are high, but say all small funds have that problem (his fund's asset base of $2 million has shrunk from $700 million in 2000). The expens ratio, moreover, does not even include the cost of trading (com missions and bid/ask spreads). Spreads are impossible to mea sure, but the fund spent an estimated 2% of assets on commis sions last year.

Whether out of bravado or self-interest, Zuccaro argues tha his fund investors should hold tight for several years. He repeat the old chestnut about how buying and holding lets you tak advantage of huge upward moves that can't be forecast. Fai enough, but then why does he keep churning individual stocks Turnover last year came to 717%.

When a fund goes into a downward spiral of losses, redemp tions and rising expense ratios, the buying and holding of fun shares cease to make sense. The right thing to do is to exit. ■

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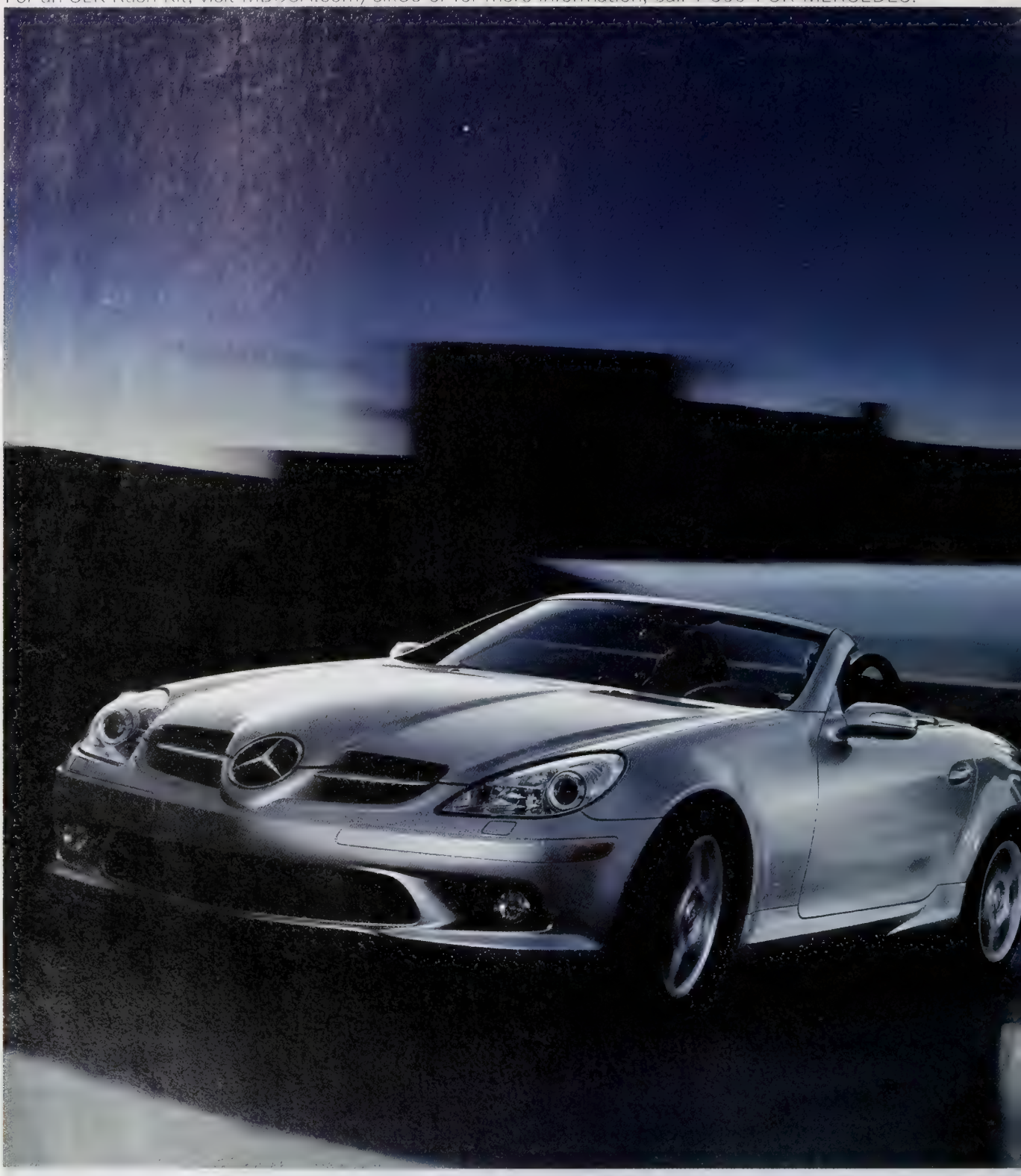

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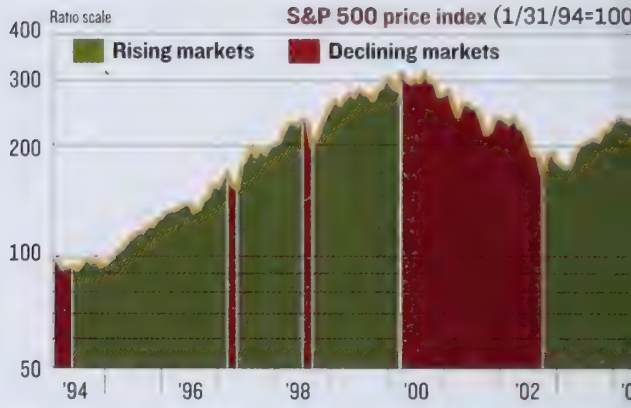
ronment and road surface conditions, driving style, elevation and vehicle load. Please always drive responsibly, follow speed limits and wear your seat belt.

Fund Survey

U.S. Stock

This table includes the larger funds that have been around for three full market cycles. The full scorecard is at forbes.com/funds.



PERFORMANCE UP	DOWN	FUND/800 PHONE	TOTAL RETURN 1/31/94 TO 7/31/04 ANNUALIZED	TOTAL RETURN LATEST 12 MONTHS	TKK GRADE	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	MAXIMUM SALES CHARGE	AN EXP
B	C	ABN Amro Growth-N/992-8151	10.9%	7.6%	3	$1,265	27	$34.9	no load	$1
•D	•C	ABN Amro/Montag & Caldwell Growth-N/992-8151	◆	5.3	3	3,270	33	57.3	no load	1
A	D	AIM Aggressive Growth Fund-A/347-1919	8.2	12.2	4	2,009	37	4.3	5.50%	1
•D	•A	AIM Basic Value Fund-A/347-1919	◆	14.0	1	6,878	26	20.1	5.50	1
B	D	AIM Blue Chip-A/347-1919	8.0	6.1	1	2,718	30	57.7	5.50	1
•B	•C	AIM Capital Development-A/347-1919	◆	14.5	2	1,023	27	3.4	5.50	1
B	D	AIM Charter Fund-A/347-1919	7.8	12.5	2	3,015	25	31.1	5.50	1
B	D	AIM Constellation Fund-A/347-1919	6.1	7.1	4	6,803	33	20.5	5.50	1
C	B	AIM Mid Cap Core Equity-A/347-1919	12.4	15.2	4	3,425	23	5.0	closed	1
B	D	AIM Premier Equity Fund-A/347-1919	6.8	6.6	2	7,434	28	63.7	5.50	1
F	•A	AIM Real Estate-A/347-1919	◆	25.5	4	739	35	3.4	4.75	1
A	•D	AIM Small Cap Growth-A/347-1919	◆	7.8	1	1,934	39	1.2	closed	1
A	D	AIM Summit Fund/347-1919	6.7	12.8	4	2,018	29	17.1	plan	0
B	F	AIM Weingarten Fund-A/347-1919	4.3	8.1	4	2,451	35	31.3	5.50	1
C	B	AllianceBernstein Growth & Inc-A/227-4618	11.1	13.9	4	7,156	21	42.7	4.25	1
B	D	AllianceBernstein Growth-A/227-4618	5.8	11.0	3	1,929	34	16.0	4.25	1
A	D	AllianceBernstein Mid-Cap Growth-A/227-4618	6.8	20.6	2	756	NA	4.3	4.25	1
B	D	AllianceBernstein Premier Growth-A/227-4618	7.1	4.5	2	4,857	31	46.6	4.25	1
A•	F	AllianceBernstein Technology-A/227-4618	9.4	3.6	2	2,610	41	22.7	4.25	2
D	•B	American AAdvantage Large Cap Value-PA/388-3344	◆	21.5	5	731	19	22.7	no load	0
B	C	American Century Equity Growth-Inv/345-2021	10.4	16.3	2	1,558	23	23.7	no load	0
D	•A	American Century Equity Income-Inv/345-2021	◆	16.5	5	3,201	19	17.0	no load	1
A	F	American Century Giftrust/345-2021	2.3	4.6	4	854	34	4.0	no load	1
B	D	American Century Growth-Inv/345-2021	6.6	8.7	4	4,829	32	31.6	no load	1
C	C	American Century Heritage-Inv/345-2021	7.0	7.0	4	1,234	32	4.2	no load	1
B	C	American Century Inc & Growth-Inv/345-2021	10.7	17.3	2	4,853	21	27.7	no load	0
C	C	American Century Select-Inv/345-2021	6.9	7.9	2	4,002	28	29.9	closed	1
C	•B	American Century Strat Alloc-Agg-Inv/345-2021	◆	12.9	4	814	26	15.0	no load	1
D	•B	American Century Strat Alloc-Mod-Inv/345-2021	◆	11.2	4	1,492	25	16.9	no load	1
B	D	American Century Ultra-Inv/345-2021	7.8	7.9	2	22,369	33	30.5	no load	1
D	A•	American Century Value Fund-Inv/345-2021	12.4	20.5	3	2,665	20	17.8	closed	1
A	D	American Century Vista-Inv/345-2021	8.0	14.9	5	1,487	31	4.3	no load	1
B	B	American Funds Amcap Fund-A/421-4120	11.7	11.1	4	15,584	28	18.2	5.75	0
D	A	American Funds American Mutual-A/421-4120	10.2	14.8	5	13,112	22	26.6	5.75	0
B	A	American Funds Capital Inc Builder-A/421-4120	10.3	15.6	5	31,597	18	15.5	5.75	0
B	B	American Funds Fundamental Investors-A/421-4120	11.1	19.7	4	21,403	24	29.1	5.75	0
A	C	American Funds Growth Fund of America-A/421-4120	12.6	14.2	4	78,769	31	27.0	5.75	0
B	D	American Funds Investment Co of America-A/421-4120	11.1	14.5	5	68,965	25	40.0	5.75	0

HONOR ON FORBES HONOR ROLL (SEE GATEFOLD FOLLOWING PAGE 232) FOOTNOTES PAGE 282 FOR MORE FUNDS GO TO: WWW.FORBES.COM/FU

t Marsico Funds, the investments we value most reach beyond the financial orld. For you and for us, sharing hopes and dreams with family is what ly matters. That's why we invest in our funds right alongside you. Because l of us want to experience more of what we truly value in life. Life itself.

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MARSICO
FUNDS

PERFORMANCE UP	DOWN	FUND/800 PHONE	TOTAL RETURN 1/31/94 TO 7/31/04 ANNUALIZED	TOTAL RETURN LATEST 12 MONTHS	TAX GRADE[1]	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	MAXIMUM SALES CHARGE	AN EXP
B	D	American Funds New Economy-A/421-4120	7.6%	11.5%	3	$6,976	30	$19.3	5.75%	$0
C	B	American Funds Washington Mutual Invs-A/421-4120	11.7	14.8	5	68,445	21	36.3	5.75	0
•D	•A	Ameristock Fund/394-5064	◆	9.0	3	1,812	19	64.6	no load	0
D	A+	Ariel Appreciation Fund/292-7435	12.9	12.1	3	2,774	20	9.0	no load	1
D	A+	Ariel Fund/292-7435	13.3	18.3	5	2,972	28	2.0	no load	1
C	C	Armada Large Cap Growth-A/622-3863	7.1	2.6	1	687	28	43.0	5.50	1
•D	•A	Armada Small Cap Value-A/622-3863	◆	20.4	4	1,055	25	1.0	5.50	1
D	B	AXP Diversified Equity Income-A/297-5300	8.7	20.4	4	3,287	22	16.4	5.75	1
D	C	AXP Dividend Opportunity-A[2]/297-5300	5.9	10.3	5	991	18	19.4	5.75	1
B	C	AXP Equity Select-A/297-5300	9.2	8.1	4	2,043	34	5.4	5.75	1
D	C	AXP Equity Value-A/297-5300	7.2	17.0	4	1,157	22	31.9	5.75	1
A	D	AXP Growth Fund-A/297-5300	5.6	4.1	1	3,077	26	30.3	5.75	1
B	C	AXP New Dimensions-A/297-5300	8.5	3.6	3	15,300	28	65.4	5.75	0
C	•B	AXP Small Company Index-A/297-5300	◆	20.5	3	1,210	26	0.9	5.75	0
D	C	AXP Stock Fund-A/297-5300	6.1	8.7	4	2,255	24	50.1	5.75	0
A	F	AXP Strategy Aggressive-A/297-5300	4.4	4.0	5	712	35	5.8	5.75	1
•B	C	Baron Asset Fund/992-2766	10.0	17.4	3	2,045	29	3.6	no load	1
•B	•B	Baron Growth Fund/992-2766	◆	13.3	3	3,016	30	1.6	closed	1
•B	C	BlackRock Index Equity-Inv A/441-7762	9.3	12.4	1	956	NA	NA	3.00	0
B	C	Brandywine Fund/656-3017	8.4	9.7	5	3,512	28	6.4	no load	1
A•	B	HONOR Calamos Growth-A/582-6959	19.0	15.3	3	9,611	38	6.8	4.75	1
D	B	Calvert Social Inv–Equity-A/368-2748	8.4	6.0	2	960	26	21.4	4.75	1
C	C	CDC Nvest CGM Advisor Targeted Eq-A/225-5478	7.9	19.8	4	698	22	25.5	5.75	1
B	•C	CDC Nvest Star Advisers-A/225-5478	◆	13.6	4	685	29	9.4	5.75	1
D	A+	Clipper Fund/776-5033	14.4	9.7	5	6,823	22	27.6	no load	1
[illegible]	A+	Cohen & Steers Realty Shares/437-9912	12.6	24.8	5	1,724	NA	3.0	no load	1
B	B	Columbia Acorn Fund-A/547-1707	13.0	22.6	5	11,680	28	1.6	5.75	1
B	•B	Columbia Acorn USA Fund-A/547-1707	◆	20.2	2	728	30	1.2	5.75	1
C	B	Columbia Growth & Inc-A/547-1707	11.1	13.8	5	1,908	19	33.1	5.75	1
B	D	Columbia Growth Fund-A/547-1707	6.2	5.4	3	840	33	37.4	5.75	1
B	D	Columbia Growth Stock-A/547-1707	6.2	0.2	3	729	31	61.8	5.75	1
C	C	Columbia Large Cap Growth-A/547-1707	7.9	4.8	3	919	33	37.4	5.75	1
B	C	Columbia Large Company Index-A/547-1707	9.8	12.3	4	857	24	45.4	5.75	0
B	D	Columbia Mid Cap Growth-A/547-1707	7.1	1.0	5	893	35	4.8	5.75	1
C	A	Columbia Mid Cap Value-A/547-1707	12.7	18.8	4	1,710	21	5.2	5.75	1
F	•A	Columbia Real Estate Equity-A/547-1707	◆	21.5	5	884	32	4.0	5.75	1
C	A	Columbia Small Cap-A/547-1707	13.9	16.9	5	1,535	24	0.6	closed	1
A	•D	Columbia Young Investor-A/547-1707	◆	10.9	2	785	26	25.6	5.75	1
B	B	Davis Financial Fund-A/279-0279	14.0	17.6	1	908	22	18.3	4.75	1
[illegible]	C	Davis New York Venture-A/279-0279	11.7	18.1	2	23,397	20	33.2	4.75	0
D	B	Delaware Large Cap Value-A[3]/523-1918	8.2	12.2	2	1,578	21	36.2	5.75	1
A	D	Delaware Trend Fund-A/523-1918	9.9	9.8	3	1,545	32	1.7	5.75	1
C	A	Dodge & Cox Stock Fund/621-3979	14.4	18.9	5	35,551	21	19.2	closed	0
B	C	Domini Social Equity/762-6814	9.7	11.2	2	1,294	25	39.9	no load	0
C	B	Dreyfus Appreciation Fund/782-6620	10.6	11.0	2	3,900	20	104.3	no load	0
B	C	Dreyfus Basic S&P 500/782-6620	9.9	12.9	2	1,273	24	46.1	no load	0
C	C	Dreyfus Disciplined Stock/782-6620	8.5	9.0	2	1,263	24	47.3	no load	1
B	•C	Dreyfus Emerging Leaders/782-6620	◆	19.1	1	1,038	27	1.5	closed	1
A	D	Dreyfus Founders Discovery-A/525-2440	8.7	12.8	3	719	35	1.2	closed	1
D	C	Dreyfus Fund/782-6620	4.4	10.3	2	1,426	26	57.3	no load	0
D	C	Dreyfus Growth & Income/782-6620	5.0	10.1	4	837	23	58.2	no load	1
[illegible]	B	Dreyfus Midcap Index/782-6620	12.5	17.2	5	1,442	25	3.0	no load	0
[illegible]	•B	Dreyfus Midcap Value/782-6620	◆	25.0	4	1,247	27	3.7	closed	1

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PERFORMANCE UP	DOWN	FUND/800 PHONE	TOTAL RETURN 1/31/94 TO 7/31/04 ANNUALIZED	LATEST 12 MONTHS	TAX GRADE	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	MAXIMUM SALES CHARGE	A EX
C	B	Dreyfus Premier New Leaders-A/782-6620	9.9%	16.7%	5	$772	28	$5.6	5.75%	$1
•B	•D	Dreyfus Premier S&P Stars-T[4]/782-6620	◆	17.0	1	1,318	26	13.4	4.50	1
B	C	Dreyfus S&P 500 Index/782-6620	9.6	12.6	2	3,027	24	46.1	no load	0
D	A	Eaton Vance Large-Cap Value-A/225-6265	11.1	16.6	4	792	19	29.3	5.75	1
•C	•B	Eaton Vance Tax-Mgd Growth 1.1-A/225-6265	◆	11.8	1	3,734	23	32.1	closed	0
B	C	Enterprise Growth-A/432-4320	9.7	4.7	2	1,644	33	56.9	4.75	1
D	B	Evergreen Equity Income-A/343-2898	7.3	11.5	4	1,282	20	26.6	5.75	1
B	C	Evergreen Growth Fund-A/343-2898	8.5	7.7	4	905	35	0.9	5.75	1
D	C	Evergreen Growth & Income-A/343-2898	7.4	11.8	4	837	22	33.7	5.75	1
B	C	Evergreen Large Cap Equity-A/343-2898	8.1	13.6	4	1,631	22	38.4	5.75	1
A	D	Evergreen Omega Fund-A/343-2898	8.0	8.9	1	1,179	36	16.3	5.75	1
C	A	Evergreen Special Values-A/343-2898	14.3	22.0	3	1,970	23	0.9	5.75	1
A	B	Excelsior Value & Restructuring/446-1012	14.6	25.4	1	3,384	20	9.2	no load	0
D	A•	FAM Value Fund/932-3271	12.2	16.7	4	691	21	2.6	no load	1
C	B	Federated American Leaders-A/341-7400	9.4	14.5	2	2,603	20	37.9	5.50	1
B	C	Federated Capital Appreciation-A/341-7400	11.5	10.2	2	3,258	24	62.0	5.50	1
C	C	Federated Equity Income-A/341-7400	7.3	14.8	3	1,269	19	36.2	5.50	1
B	B	Federated Kaufmann-A/341-7400	12.1	9.7	5	6,448	28	3.4	5.50	1
B	C	Federated Max-Cap Index-IS/341-7400	9.7	12.9	2	1,384	24	46.2	no load	0
C	B	Federated Stock Trust/341-7400	10.4	14.7	4	1,371	20	37.8	no load	0
B	D	Fidelity Adv Equity Growth-T/877-208-0098	8.1	6.9	2	10,239	36	25.9	3.50	1
D	B	Fidelity Adv Equity Income-T/877-208-0098	10.1	17.0	4	5,827	24	23.2	3.50	1
•C	•C	Fidelity Adv Growth & Income-T/877-208-0098	◆	4.6	1	1,773	25	41.8	3.50	1
D	C	Fidelity Adv Growth Oppors-T/877-208-0098	5.2	8.9	3	5,135	31	45.5	3.50	1
•D	•B	Fidelity Adv Health Care-T/877-208-0098	◆	3.2	1	784	33	32.5	3.50	1
•C	•D	Fidelity Adv Large Cap-T/877-208-0098	◆	7.3	1	712	30	43.6	3.50	1
•B	•B	Fidelity Adv Mid Cap-T/877-208-0098	◆	17.8	2	7,360	29	5.2	3.50	1
•A	•D	Fidelity Adv Technology-T/877-208-0098	◆	4.5	2	981	39	18.9	3.50	1
C	B	Fidelity Adv Value Strategies-T/877-208-0098	10.2	19.7	4	1,837	NA	2.2	3.50	1
A•	F	Fidelity Aggressive Growth Fund/544-6666	4.4	11.5	3	4,838	35	6.1	no load	0
D	B	Fidelity Asset Manager–Growth/544-6666	6.7	7.8	5	3,599	25	55.4	no load	0
C	D	Fidelity Blue Chip Growth/544-6666	8.1	7.8	2	22,102	29	51.7	no load	0
A	D	Fidelity Capital Appreciation/544-6666	9.2	16.5	3	5,407	34	19.0	no load	0
B	B	Fidelity Contrafund/544-6666	11.3	15.6	4	37,529	33	12.4	no load	0
D	D	Fidelity Destiny Portfolio I/544-6666	5.3	8.5	5	3,195	30	44.3	plan	0
C	C	Fidelity Destiny Portfolio II/544-6666	9.4	9.1	4	5,098	28	31.6	plan	0
C	C	Fidelity Disciplined Equity/544-6666	9.0	12.0	4	4,239	25	39.1	no load	0
B	B	HONOR Fidelity Dividend Growth/544-6666	12.8	8.3	3	18,395	23	60.3	no load	0
D	B	Fidelity Equity-Income/544-6666	9.9	16.3	4	23,749	22	34.6	no load	0
D	B	Fidelity Equity-Income II/544-6666	9.8	12.5	5	11,985	26	33.0	no load	0
B	•B	Fidelity Export & Multinational/544-6666	◆	15.1	5	1,232	32	26.0	no load	0
B	B	Fidelity Fifty Fund/544-6666	11.3	2.6	4	858	33	19.1	no load	0
D	C	Fidelity Fund/544-6666	9.6	11.9	4	10,123	27	54.0	no load	0
C	B	Fidelity Growth & Income/544-6666	9.4	9.2	4	29,777	25	61.6	no load	0
A	D	Fidelity Growth Company/544-6666	9.8	9.7	2	22,148	38	16.4	no load	0
B	D	Fidelity Independence/544-6666	8.4	8.0	5	4,299	32	16.0	no load	0
B	•D	Fidelity Large Cap Stock/544-6666	◆	8.2	1	693	29	40.3	no load	0
C	A•	Fidelity Low-Priced Stock/544-6666	15.0	21.9	4	30,380	19	1.6	closed	0
C	C	Fidelity Magellan Fund/544-6666	8.1	9.0	2	62,422	26	65.4	closed	0
A	•C	Fidelity Mid-Cap Stock/544-6666	◆	8.7	3	7,964	30	4.1	no load	0
A•	D	Fidelity New Millennium/544-6666	16.1	9.9	5	3,320	38	5.7	closed	0
A	D	Fidelity OTC Portfolio/544-6666	8.4	7.4	4	7,319	33	10.0	no load	0
F	A•	Fidelity Real Estate Investment/544-6666	11.9	21.8	5	3,176	33	3.1	no load	0

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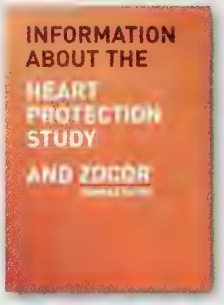
WHAT ARE YOU DOING TO HELP PROTECT YOUR HEART?

You do all kinds of things to help safeguard yourself. And yet, if you've had a heart attack or stroke, it's important to ask your doctor if you're doing enough to help protect your heart. The Heart Protection Study by Oxford University, funded in part by Merck, researched ZOCOR.

ZOCOR is the first and only cholesterol medication proven to significantly reduce the risk of heart attack and stroke in people with heart disease. Regardless of cholesterol level.

Before the Heart Protection Study was complete, ZOCOR was a time-tested, cholesterol-lowering medication, with over 160 million prescriptions filled in the past 11 years.

Ask your doctor how ZOCOR, along with a healthy diet, can help protect you. Get information about the Heart Protection Study and ZOCOR at ***zocor.com*** or call 1-800-MERCK-75.



ZOCOR
(SIMVASTATIN)

Important considerations: ZOCOR is a prescription medicine and isn't right for everyone, including women who are nursing or pregnant or who may become pregnant, anyone with liver problems, and people who are allergic to any ingredients of ZOCOR. Unexplained muscle pain or weakness could be a sign of a rare but serious side effect and should be reported to your doctor right away. Your doctor may do blood tests before and during treatment with ZOCOR to check for liver problems. To avoid serious side effects, discuss with your doctor medicine or food you should avoid while on ZOCOR.

YOUR RESULTS MAY VARY.

PLEASE READ THE MORE DETAILED INFORMATION ABOUT ZOCOR IMMEDIATELY FOLLOWING THIS AD.

ASK YOUR DOCTOR IF ZOCOR IS RIGHT FOR YOU.

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To find out if you qualify, call 1-800-MERCK-75.

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ZOCOR
(SIMVASTATIN)

PLEASE READ THIS SUMMARY CAREFULLY, THEN ASK YOUR DOCTOR ABOUT ZOCOR. NO ADVERTISEMENT CAN PROVIDE ALL THE INFORMATION NEEDED TO PRESCRIBE A DRUG. THIS ADVERTISEMENT DOES NOT TAKE THE PLACE OF CAREFUL DISCUSSIONS WITH YOUR DOCTOR. ONLY YOUR DOCTOR HAS THE TRAINING TO WEIGH THE RISKS AND BENEFITS OF A PRESCRIPTION DRUG FOR YOU.

USES OF ZOCOR

ZOCOR is a prescription drug that is indicated as an addition to diet for many patients with high cholesterol. For patients at high risk of coronary heart disease (CHD) because of existing heart disease, diabetes, vascular disease, or history of stroke, ZOCOR is indicated along with diet to reduce the risk of death by reducing coronary death; reduce the risk of heart attack and stroke; and reduce the need for revascularization procedures.

WHEN ZOCOR SHOULD NOT BE USED

Some people should not take ZOCOR. Discuss this with your doctor.

ZOCOR should not be used by patients who are allergic to any of its ingredients. In addition to the active ingredient simvastatin, each tablet contains the following inactive ingredients: cellulose, lactose, magnesium stearate, iron oxides, talc, titanium dioxide, and starch. Butylated hydroxyanisole is added as a preservative.

Patients with liver problems: ZOCOR should not be used by patients with active liver disease or repeated blood test results indicating possible liver problems. (See WARNINGS.)

Women who are or may become pregnant: Pregnant women should not take ZOCOR because it may harm the fetus. **Women of childbearing age should not take ZOCOR unless it is highly unlikely that they will become pregnant.** If a woman does become pregnant while on ZOCOR, she should stop taking the drug and talk to her doctor at once.

Women who are breast-feeding should not take ZOCOR.

WARNINGS

Muscle: Tell your doctor right away if you experience any unexplained muscle pain, tenderness, or weakness at any time during treatment with ZOCOR so your doctor can decide if ZOCOR should be stopped. Some patients may have muscle pain or weakness while taking ZOCOR. Rarely, this can include muscle breakdown resulting in kidney damage. The risk of muscle breakdown is greater in patients taking certain other drugs along with ZOCOR:

- **Cyclosporine, itraconazole, ketoconazole, erythromycin, clarithromycin, HIV protease inhibitors, the antidepressant nefazodone, or large quantities of grapefruit juice (>1 quart daily), particularly with higher doses of ZOCOR.**
- **Gemfibrozil particularly with higher doses of ZOCOR.**
- **Other lipid lowering drugs (other fibrates or ≥1 g/day of niacin) that can cause myopathy when given alone.**
- **Amiodarone or verapamil with higher doses of ZOCOR.**

The risk of muscle breakdown is greater at higher doses of simvastatin.

Because the risk of muscle side effects is greater when ZOCOR is used with the products listed above, the combined use of these products should be avoided unless your doctor determines the benefits are likely to outweigh the increased risks.

The dose of ZOCOR should not exceed 10 mg daily in patients receiving gemfibrozil. The combined use of ZOCOR and gemfibrozil should be avoided, unless your doctor determines that the benefits outweigh the increased risks of muscle problems. Caution should be used when using ZOCOR with other fibrates or niacin because these can cause muscle problems when taken alone.

No more than 10 mg/day of ZOCOR should be taken with cyclosporine.

The combined use of verapamil or amiodarone with doses above ZOCOR 20 mg should be avoided unless your doctor determines the benefits outweigh the increased risk of muscle breakdown.

Your doctor should also carefully monitor for any muscle pain, tenderness, or weakness, particularly during the initial months of therapy and if the dose of either drug is increased. Your doctor also may monitor the level of certain muscle enzymes in your body, but there is no assurance that such monitoring will prevent the occurrence of severe muscle disease.

The risk of muscle breakdown is greater in patients with kidney problems or diabetes.

If you have conditions that can increase your risk of muscle breakdown, which in turn can cause kidney damage, your doctor should temporarily withhold or stop ZOCOR. Also, since there are no known adverse consequences of briefly stopping therapy with ZOCOR, treatment should be stopped a few days before elective major surgery and when any major acute medical or surgical condition occurs. Discuss this with your doctor, who can explain these conditions to you.

Liver: About 1% of patients who took ZOCOR in clinical trials developed elevated levels of some liver enzymes. Patients who had these increases usually had no symptoms. Elevated liver enzymes usually returned to normal levels when therapy with ZOCOR was stopped.

In the ZOCOR Survival Study, the number of patients with more than 1 liver enzyme level elevation to greater than 3 times the normal upper limit was no different between the ZOCOR and placebo groups. Only 8 patients on ZOCOR and 5 on placebo discontinued therapy due to elevated liver enzyme levels. Patients were started on 20 mg of ZOCOR, and one third had their dose raised to 40 mg.

Your doctor should perform routine blood tests to check these enzymes before you start treatment with ZOCOR and thereafter when clinically indicated. Patients titrated to the 80-mg dose should receive an additional test at 3 months and periodically thereafter (eg, semiannually) for the first year of treatment. If your enzyme levels increase, your doctor should order more frequent tests. If your liver enzyme levels remain unusually high, your doctor should discontinue your medication.

Tell your doctor about any liver disease you may have had in the past and about how much alcohol you consume. ZOCOR should be used with caution in patients who consume large amounts of alcohol.

PRECAUTIONS

Drug Interactions: Because of possible serious drug interactions, it is important to tell your doctor what other drugs you are taking, including those obtained without a prescription. You should also tell other doctors who are prescribing a new medicine for you that you are taking ZOCOR® (simvastatin). ZOCOR can interact wit the following:

- Itraconazole
- Ketoconazole
- Erythromycin
- Clarithromycin
- HIV protease inhibitors
- Nefazodone
- Cyclosporine
- Large quantities of grapefruit juice (>1 quart daily)

The risk of myopathy is also increased by gemfibrozil and to a lesser extent other fibrates and niacin (nicotini acid) (≥1 g/day).

The risk of muscle breakdown is increased with other drugs:

- Amiodarone
- Verapamil

Some patients taking lipid-lowering agents similar to ZOCOR and coumarin anticoagulants (a type of bloo thinner) have experienced bleeding and/or increased blood clotting time. Patients taking these medicine should have their blood tested before starting therapy with ZOCOR and should continue to be monitored.

Central Nervous System Toxicity; Cancer, Mutations, Impairment of Fertility: Like most prescrip tion drugs, ZOCOR was required to be tested on animals before it was marketed for human use. Often thes tests were designed to achieve higher drug concentrations than humans achieve at recommended dosing. I some tests, the animals had damage to the nerves in the central nervous system. In studies of mice with hig doses of ZOCOR, the likelihood of certain types of cancerous tumors increased. No evidence of mutations o or damage to genetic material has been seen. In 1 study with ZOCOR, there was decreased fertility in male rat

Pregnancy: Pregnant women should not take ZOCOR because it may harm the fetus.

Safety in pregnancy has not been established. In studies with lipid-lowering agents similar to ZOCOR, ther have been rare reports of birth defects of the skeleton and digestive system. Therefore, women of childbearin age should not take ZOCOR unless it is highly unlikely they will become pregnant. If a woman does becom pregnant while taking ZOCOR, she should stop taking the drug and talk to her doctor at once. The activ ingredient of ZOCOR did not cause birth defects in rats at 3 times the human dose or in rabbits at 3 times th human dose.

Nursing Mothers: Drugs taken by nursing mothers may be present in their breast milk. Because of th potential for serious adverse reactions in nursing infants, a woman taking ZOCOR should not breast-feed. (Se WHEN ZOCOR SHOULD NOT BE USED.)

Pediatric Use: ZOCOR is not recommended for children or patients under 10 years of age.

Geriatric Use: Higher blood levels of active drug were seen in elderly patients (70–78 years of age) com pared with younger patients (18–30 years of age) in 1 study. In other studies, the cholesterol-lowering effect of ZOCOR were at least as great in elderly patients as in younger patients, and there were no overall differ ences in safety between elderly and younger patients over the 20–80 mg/day dosage range. Of the 7 case of myopathy/rhabdomyolysis among 10,269 patients on ZOCOR in another study, 4 were aged 65 or mor (at baseline), 1 of whom was over 75.

SIDE EFFECTS

Most patients tolerate treatment with ZOCOR well; however, like all prescription drugs, ZOCOR can cause sid effects, and some of them can be serious. Side effects that do occur are usually mild and short-lived. Onl your doctor can weigh the risks versus the benefits of any prescription drug. In clinical studies with ZOCOR less than 1.5% of patients dropped out of the studies because of side effects. In 2 large, 5-year studies patients taking ZOCOR experienced similar side effects to those patients taking placebo (sugar pills). Some o the side effects that have been reported with ZOCOR or related drugs are listed below. This list is not complete Be sure to ask your doctor about side effects before taking ZOCOR and to discuss any side effects that occu

Digestive System: Constipation, diarrhea, upset stomach, gas, heartburn, stomach pain/cramps, anorexia loss of appetite, nausea, inflammation of the pancreas, hepatitis, jaundice, fatty changes in the liver, and rarely, severe liver damage and failure, cirrhosis, and liver cancer.

Muscle, Skeletal: Muscle cramps, aches, pain, and weakness; joint pain; muscle breakdown.

Nervous System: Dizziness, headache, insomnia, tingling, memory loss, damage to nerves causing weak ness and/or loss of sensation and/or abnormal sensations, anxiety, depression, tremor, loss of balance psychic disturbances.

Skin: Rash, itching, hair loss, dryness, nodules, discoloration.

Eye/Senses: Blurred vision, altered taste sensation, progression of cataracts, eye muscle weakness.

Hypersensitivity (Allergic) Reactions: On rare occasions, a wide variety of symptoms have bee reported to occur either alone or together in groups (referred to as a syndrome) that appeared to be based o allergic-type reactions, which may rarely be fatal. These have included 1 or more of the following: a sever generalized reaction that may include shortness of breath, wheezing, digestive symptoms, and low blood pres sure and even shock; an allergic reaction with swelling of the face, lips, tongue, and/or throat with difficul swallowing or breathing; symptoms mimicking lupus (a disorder in which a person's immune system ma attack parts of his or her own body); severe muscle and blood vessel inflammation, sometimes including rash bruises; various disorders of blood cells (that could result in anemia, infection, or blood clotting problems or abnormal blood tests; inflamed or painful joints; hives; fatigue and weakness; sensitivity to sunlight; feve chills; flushing; difficulty breathing; and severe skin disorders that vary from rash to a serious burn-lik shedding of skin all over the body, including mucous membranes such as the lining of the mouth.

Other: Loss of sexual desire, breast enlargement, impotence.

Laboratory Tests: Liver function test abnormalities including elevated alkaline phosphatase and bilirubi thyroid function abnormalities.

NOTE: This summary provides important information about ZOCOR. If you would like mor information, ask your doctor or pharmacist to let you read the prescribing information an then discuss it with them.

MERCK
Whitehouse Station, NJ 0888

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FUND/800 PHONE	TOTAL RETURN 1/31/94 TO 7/31/04 ANNUALIZED	TOTAL RETURN LATEST 12 MONTHS	TAX GRADE[1]	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($MIL)	MAXIMUM SALES CHARGE	ANNUAL EXPENSES PER $100
Fidelity Select-Biotechnology/544-6666	9.7%	1.2%	1	$1,870	NA	$6.3	no load	$1.15
Fidelity Select-Computers/544-6666	11.9	1.6	5	703	NA	9.3	no load	1.16
Fidelity Select-Electronics/544-6666	15.6	3.0	4	2,970	47	11.0	no load	1.06 a
Fidelity Select-Health Care/544-6666	14.0	3.8	3	1,904	35	33.5	no load	0.99
Fidelity Select-Software/Comp Svc/544-6666	13.6	1.3	5	691	36	7.3	no load	1.06 a
Fidelity Select-Technology/544-6666	11.6	4.7	3	2,040	41	15.5	no load	1.14 a
Fidelity Small Cap Independence/544-6666	7.7	16.0	1	935	23	0.9	no load	0.93
Fidelity Spartan 500 Index/544-6666	9.9	13.0	2	10,337	25	45.1	no load	0.19
Fidelity Stock Selector/544-6666	8.1	10.7	4	779	28	42.5	no load	0.82
Fidelity Trend Fund/544-6666	4.9	11.7	4	831	27	40.0	no load	0.79
Fidelity Utilities Fund/544-6666	5.5	14.6	5	815	26	11.7	no load	0.73
Fidelity Value Fund/544-6666	11.4	22.9	3	8,104	27	5.2	no load	0.98
Fifth Third Quality Growth-A/282-5706	8.2	2.4	3	1,135	28	32.5	5.00%	1.33 a
First American Equity Income-A/677-3863	9.3	11.5	5	1,656	22	43.2	5.50	1.15 a
First American Equity Index-A/677-3863	9.5	12.4	2	2,327	24	46.1	5.50	0.62 a
First American Large Cap Gr Opps-A/677-3863	5.9	9.8	3	1,348	30	38.5	5.50	1.15 a
First American Large Cap Value-A/677-3863	8.2	14.3	4	1,166	22	33.0	5.50	1.15 a
First American Mid Cap Growth Opps-A/677-3863	9.5	16.2	5	1,364	32	4.6	5.50	1.20 a
First American Small Cap Select-A/677-3863	9.8	19.4	5	915	28	1.4	5.50	1.21 a
Firsthand Technology Value/888-884-2675	◆	-4.9	2	701	NA	2.9	no load	1.90
FMI Focus Fund/811-5311	◆	8.7	3	1,082	32	1.5	no load	1.44
FPA Capital Fund/982-4372	16.4	22.3	5	1,577	29	2.0	closed	0.83
Franklin Balance Sheet Invest-A/342-5236	12.5	23.8	2	3,517	22	2.2	closed	0.91
Franklin Capital Growth-A/342-5236	9.0	9.1	2	1,659	27	27.8	5.75	0.98
Franklin DynaTech Fund-A/342-5236	9.9	8.8	2	720	40	29.7	5.75	0.97
Franklin Equity Income-A/342-5236	8.6	17.1	4	850	20	34.5	5.75	0.95
Franklin Flex Cap Growth-A/342-5236	14.2	15.5	1	1,885	35	8.3	5.75	1.01
Franklin Growth Fund-A/342-5236	8.8	12.2	2	2,082	30	21.3	5.75	1.00
Franklin Mutual-Beacon-A/342-5236	11.6	17.3	5	5,162	22	8.4	5.75	1.18 a
Franklin Mutual-Qualified-A/342-5236	11.6	16.6	5	3,987	21	7.6	5.75	1.17 a
Franklin Mutual-Shares-A/342-5236	11.6	15.6	5	10,699	23	11.5	5.75	1.16 a
Franklin Real Estate Secs-A/342-5236	12.2	21.0	5	806	32	2.7	5.75	1.01
Franklin Rising Dividends-A/342-5236	11.6	13.2	3	1,971	25	8.6	5.75	1.29
Franklin Small-Mid Cap Growth-A/342-5236	10.8	12.8	1	8,174	29	3.3	5.75	0.98
Franklin Utilities Fund-A/342-5236	6.9	19.1	5	1,800	17	8.3	4.25	0.81
Gabelli Asset Fund/422-3554	11.4	15.7	4	1,963	27	7.1	no load	1.38
Gabelli Growth Fund/422-3554	8.3	8.2	3	1,518	33	39.4	no load	1.47
Gabelli Value Fund/422-3554	12.1	11.5	3	1,191	29	6.0	5.50	1.44
Gartmore Nationwide-A/888-223-2116	9.2	9.4	5	1,833	25	40.8	5.75	1.13
Gateway Fund/354-6339	6.9	6.3	2	1,813	24	46.1	no load	0.97
Goldman Sachs Capital Growth-A/526-7384	8.8	8.6	2	1,923	29	42.7	5.50	1.40 a
Goldman Sachs Core US Equity-A/526-7384	9.6	17.3	3	705	27	34.8	5.50	1.16 a
Goldman Sachs Growth & Inc-A/526-7384	7.4	19.2	2	725	20	29.6	5.50	1.20 a
Goldman Sachs Small Cap Value-A/526-7384	9.2	20.9	1	1,495	22	0.7	5.50	1.51 a
Guardian Park Avenue-A/221-3253	7.0	6.1	4	1,144	25	50.9	4.50	0.89
Hancock Classic Value-A/695-7389	◆	19.0	2	1,107	15	21.5	5.00	1.16 a
Hancock Financial Industries-A/695-7389	◆	8.6	1	1,135	16	25.9	5.00	1.55
Hancock Regional Bank-A/695-7389	13.8	15.5	5	2,415	16	9.9	5.00	1.39
Hancock Small Cap Growth-A/695-7389	6.8	10.1	2	778	34	1.0	5.00	1.69
Hancock Sovereign Investors-A/695-7389	7.6	8.7	4	1,211	22	70.5	5.00	1.24
Hancock US Global Leaders Growth-A/695-7389	◆	9.9	1	882	28	58.6	5.00	1.35
Harbor Capital Appreciation-Inv/422-1050	9.4	8.2	4	6,370	34	39.7	no load	1.10
Hartford Capital Appreciation-A/888-843-7824	◆	24.3	3	6,441	24	18.5	5.50	1.35

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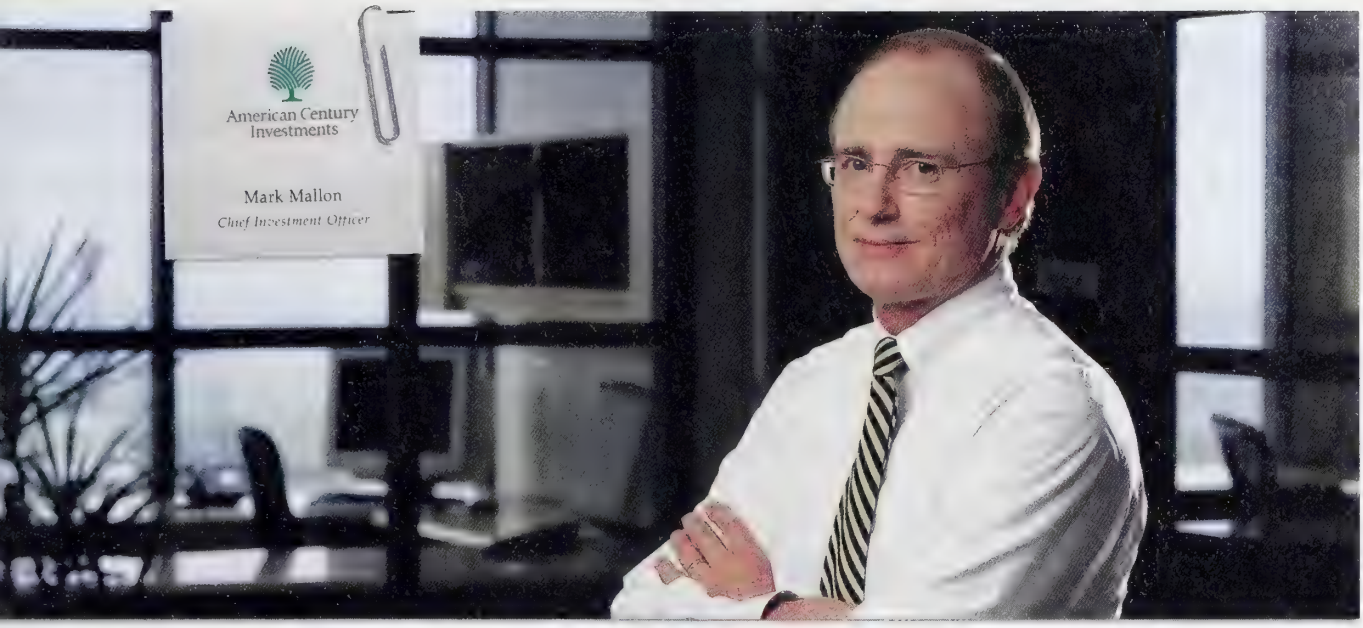
PERFORMANCE UP	DOWN	FUND/800 PHONE	TOTAL RETURN 1/31/94 TO 7/31/04 ANNUALIZED	TOTAL RETURN LATEST 12 MONTHS	TAX GRADE	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	MAXIMUM SALES CHARGE
•D	•B	Hartford Dividend & Growth-A/888-843-7824	◆	14.7%	2	$2,385	22	$35.6	5.50%
B	C	Hartford Growth Fund-A/888-843-7824	9.3%	13.8	5	708	35	24.6	5.50
•C	•C	Hartford Stock Fund-A/888-843-7824	◆	9.1	1	1,708	24	79.1	5.50
C	A	Heartland Value Fund/432-7856	13.8	20.9	4	1,837	NA	0.5	closed
•B	•A	Hennessy Cornerstone Growth/966-4354	◆	14.9	4	868	24	1.5	no load
•D	•B	ICAP Equity/888-221-4227	◆	14.6	3	975	20	52.8	no load
D	B	Invesco Core Equity Fund-A/347-1919	6.7	4.5	5	2,153	30	45.5	5.50
A	D	Invesco Dynamics Fund-A/347-1919	7.8	10.7	1	3,067	36	7.0	5.50
C	B	Invesco Financial Services-A/347-1919	12.3	9.5	3	948	19	34.9	5.50
C	B	Invesco Health Sciences-A/347-1919	10.6	5.5	4	937	32	20.1	5.50
C	B	Invesco Leisure Fund-A/347-1919	12.3	9.3	4	850	28	10.2	5.50
A•	F	Invesco Technology Fund-A/347-1919	5.8	3.8	2	1,593	45	13.3	5.50
F	B	Invesco Total Return-A/347-1919	6.4	5.1	5	719	30	45.4	5.50
A•	F	Janus Enterprise Fund/525-8983	7.4	15.6	1	1,672	33	6.2	no load
B	D	Janus Fund/525-8983	7.6	9.1	3	14,112	33	20.2	no load
A	C	Janus Growth & Income/525-8983	11.5	9.2	2	5,197	28	41.7	no load
A	D	Janus Mercury Fund/525-8983	10.9	9.4	4	4,641	28	32.7	no load
•A	•D	Janus Olympus Fund/525-8983	◆	8.9	1	2,389	33	18.6	no load
C	A	Janus Small Cap Value-Inv/525-8983	15.9	19.4	4	2,933	26	1.2	closed
A	D	Janus Twenty Fund/525-8983	9.9	12.9	2	8,705	32	42.0	closed
A•	D	Janus Venture Fund/525-8983	8.8	13.2	5	1,258	38	0.7	closed
•D	•A	Jennison Equity Opportunity-A/225-1852	◆	15.6	4	947	NA	8.1	5.50
•B	•D	Jennison Growth Fund-A/225-1852	◆	7.7	2	3,179	36	45.2	5.50
C	B	Jennison Utility Fund-A/225-1852	8.6	29.5	5	2,686	19	8.0	5.50
B	B	Jennison Value Fund-A/225-1852	8.7	16.9	5	831	25	21.1	5.50
B	B	Jensen Portfolio-J Shares/992-4144	11.4	9.2	2	2,379	25	37.8	no load
•C	•B	JP Morgan Small Cap Equity-A/348-4782	◆	23.2	4	742	27	1.2	5.75
C	A	HONOR Keeley Small Cap Value/888-933-5391	13.8	31.9	3	152	25	1.0	4.50
•C	•A	Laudus Rosenberg US Small Cap-Inv/447-3332	◆	21.6	2	1,211	27	0.7	closed
A	C	Legg Mason Special Invest-P/577-8589	11.9	14.5	2	3,362	26	5.5	no load
A	C	Legg Mason Value Trust-P/577-8589	15.3	10.0	3	14,358	24	25.3	no load
D	A•	Longleaf Partners Fund/445-9469	14.1	15.6	4	8,302	23	14.2	closed
B	A	Longleaf Partners Small-Cap/445-9469	13.9	20.9	4	2,389	32	2.1	closed
C	B	Lord Abbett Affiliated Fund-A/874-3733	11.1	14.2	5	17,015	26	35.0	5.75
C	B	Lord Abbett All Value Fund-A/874-3733	12.1	16.4	4	1,588	26	16.8	5.75
A	D	Lord Abbett Developing Growth-A/874-3733	8.9	2.5	1	1,014	37	0.8	5.75
•B	•C	Lord Abbett Growth Opportunities-A/874-3733	◆	6.7	1	707	32	3.6	5.75
D	A•	Lord Abbett Mid-Cap Value-A/874-3733	13.8	22.4	4	7,580	23	4.3	closed
•C	•A	Lord Abbett Small-Cap Value-A/874-3733	◆	26.0	3	1,250	27	0.9	closed
B	D	MainStay Capital Appreciation-A/624-6782	6.0	5.1	3	1,468	29	33.1	5.50
B	B	MainStay MAP Fund-A/624-6782	14.1	17.4	2	908	30	8.2	5.50
B	C	MainStay S&P 500 Index-A/624-6782	9.9	12.7	4	1,171	24	45.4	3.00
D	B	MainStay Value Fund-A/624-6782	7.0	16.2	2	695	19	28.5	5.50
B	A	Mairs & Power Growth Fund/304-7404	16.4	18.6	4	1,643	22	13.7	no load
A	C	Managers Special Equity-Managers/835-3879	11.1	18.4	2	3,063	28	1.2	no load
A	D	Mass Investors Growth Stock-A/225-2606	9.0	3.8	3	9,168	32	39.1	5.75
C	C	Mass Investors Trust-A/225-2606	8.1	10.1	2	5,986	26	45.1	5.75
•B	•B	Masters' Select Equity Fund/960-0188	◆	14.4	4	713	31	13.8	no load
F	A	Merger Fund/343-8959	8.2	2.9	4	1,761	28	3.3	closed
C	A	Meridian Growth/446-6662	12.4	20.0	5	1,231	30	2.2	no load
B	•A	Meridian Value Fund/446-6662	◆	18.1	3	2,147	27	4.2	no load
F	B	Merrill Balanced Capital-A/637-3863	7.2	11.6	5	3,081	NA	25.6	5.25
C	B	Merrill Basic Value Fund-A/637-3863	10.0	17.3	5	8,330	22	32.4	5.25

HONOR ON FORBES HONOR ROLL (SEE GATEFOLD FOLLOWING PAGE 232) FOOTNOTES PAGE 282 FOR MORE FUNDS GO TO: WWW.FORBES.COM/FU



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U.S. Growth Equity | U.S. Value Equity | U.S. Core Equity | International Equity | Fixed Income

Performance Up	Performance Down	Fund/800 Phone	Total Return 1/31/94 to 7/31/04 Annualized	Total Return Latest 12 Months	Tax Grade	Assets 7/31/04 ($Mil)	Weighted Average P/E	Median Market Cap ($Bil)	Maximum Sales Charge	Am Exp
B	D	Merrill Fundamental Growth-A/637-3863	8.6%	11.1%	2	$5,382	35	$27.5	5.25%	$1
B	A	Merrill Value Opportunities-A[5]/637-3863	13.9	17.1	5	3,046	24	1.5	5.25	1
B	D	MFS Capital Opportunities-A/225-2606	8.3	9.5	4	2,241	29	28.2	5.75	1
A	F	MFS Emerging Growth-A/225-2606	5.1	5.9	2	4,233	37	10.6	5.75	1
A	D	MFS Mid Cap Growth-A/225-2606	7.5	10.1	4	2,016	39	4.3	5.75	1
•B	•C	MFS New Discovery-A/225-2606	◆	2.1	3	1,295	37	1.0	5.75	1
B	D	MFS Research Fund-A/225-2606	7.5	11.3	3	2,899	29	20.1	5.75	1
•B	•D	MFS Strategic Growth-A/225-2606	◆	4.2	3	1,548	32	32.6	5.75	1
B	C	MFS Utilities Fund-A/225-2606	9.7	21.8	5	1,219	22	9.5	4.75	1
•D	•A	MFS Value Fund-A/225-2606	◆	16.6	2	6,028	21	36.2	5.75	1
•C	•B	MidCap SPDRs/ETF	◆	16.4	1	6,424	26	2.9	no load	0
B	D	MS American Opportunities-A/869-6397	7.4	5.2	3	4,118	36	33.1	5.25	0
D	B	MS Dividend Growth Secs-A/869-6397	8.0	11.8	5	7,001	24	51.2	5.25	0
C	D	MS Growth Fund-A/869-6397	5.6	5.0	3	984	34	50.1	5.25	1
•D	•A	MS Special Value-A/869-6397	◆	17.6	1	983	20	0.8	closed	1
D	B	MS Strategist Fund-A/869-6397	7.7	12.1	5	1,132	26	26.5	5.25	0
D	C	MS Utilities Fund-A/869-6397	5.1	14.4	5	866	17	10.5	5.25	1
C	B	MS Value-Added Market–Equity-A/869-6397	10.7	18.5	5	1,648	26	10.2	5.25	0
B	B	HONOR Muhlenkamp Fund/860-3863	14.0	26.6	1	1,226	17	8.3	no load	1
B	C	Munder Index 500-A/468-6337	9.6	12.4	2	1,001	24	45.4	2.50	0
•A	•F	Munder NetNet Fund-A/468-6337	◆	2.8	1	821	NA	5.5	5.50	3
•C	•C	Nations LargeCap Index-Inv A/321-7854	◆	12.6	1	1,256	26	45.3	no load	0
•C	•B	Nations SmallCap Index-Inv A/321-7854	◆	21.0	1	911	26	0.9	no load	0
D	B	Nations Value-Inv A/321-7854	8.4	18.2	5	1,442	23	31.2	5.75	1
A	D	NB Focus Fund-Inv/877-9700	10.1	12.6	4	1,573	20	14.7	no load	0
D	A+	NB Genesis Fund-Inv/877-9700	14.6	20.4	2	6,768	26	1.8	closed	1
C	C	NB Guardian Fund-Inv/877-9700	6.5	15.6	5	1,601	25	17.2	no load	0
C	B	NB Partners Fund-Inv/877-9700	8.8	13.1	4	1,595	25	16.8	no load	0
D	C	Nicholas Fund/227-5987	7.5	11.5	4	2,327	22	9.7	no load	0
B	•C	Northern Growth Equity/595-9111	◆	10.0	3	726	25	37.1	no load	1
D	A	Oakmark Fund-I/625-6275	10.4	14.6	3	6,307	21	23.5	no load	1
B	•A	Oakmark Select Fund-I/625-6275	◆	13.3	4	5,561	20	13.8	closed	1
B	•B	Olstein Financial Alert Fund/799-2113	◆	20.0	5	1,910	25	4.6	1.00	2
C	C	One Group Diversified Equity-A/480-4111	7.9	10.1	2	1,876	24	40.3	5.25	1
C	B	One Group Diversified Mid-Cap-A/480-4111	9.3	13.7	5	969	24	3.3	5.25	1
B	C	One Group Equity Index-A/480-4111	9.5	12.5	2	2,794	25	42.5	5.25	0
D	•B	One Group Inv Growth & Income-A/480-4111	◆	11.5	4	1,674	NA	12.2	5.25	0
C	•B	One Group Inv Growth-A/480-4111	◆	13.3	3	1,009	NA	11.2	5.25	0
B	•D	One Group Large Cap Growth-A/480-4111	◆	7.2	2	2,200	29	45.4	5.25	1
D	C	One Group Large Cap Value-A/480-4111	7.7	15.8	3	1,525	19	29.7	5.25	1
A	C	One Group Mid Cap Growth-A/480-4111	11.3	8.6	4	2,364	28	3.3	5.25	1
D	A	One Group Mid Cap Value-A/480-4111	11.4	19.8	4	1,726	21	2.5	5.25	1
C	C	One Group Small Cap Growth-A/480-4111	7.6	18.0	3	715	29	1.1	5.25	1
D	•A	One Group Small Cap Value-A/480-4111	◆	22.9	2	1,018	20	1.0	closed	1
A	C	Oppenheimer Capital Apprec-A/525-7048	11.0	10.7	3	8,589	30	40.1	5.75	1
B	D	Oppenheimer Discovery Fund-A/525-7048	5.1	3.0	4	940	40	1.3	5.75	1
C	C	Oppenheimer Equity Fund-A/525-7048	7.7	8.4	3	2,573	30	36.4	5.75	0
D	D	Oppenheimer Growth Fund-A/525-7048	5.6	-1.1	2	1,495	38	52.8	5.75	1
C	C	Oppenheimer Main Street-A/525-7048	7.9	13.3	3	11,978	24	42.3	5.75	0
D	B	Oppenheimer Quest Value-A/525-7048	9.4	16.3	3	986	22	44.4	5.75	1
D	A	Oppenheimer Small Cap Value-A/525-7048	9.2	26.6	2	786	23	1.1	5.75	1
D	B	HONOR Osterweis Fund/866-236-0050	13.7	19.1	4	123	33	6.4	no load	1
D	B	Parnassus Equity income/999-3505	10.3	5.8	5	720	19	10.3	no load	0

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Performance Up	Performance Down	Fund/800 Phone	Total Return 1/31/94 to 7/31/04 Annualized	Total Return Latest 12 Months	Tax Grade[1]	Assets 7/31/04 ($Mil)	Weighted Average P/E	Median Market Cap ($Bil)	Maximum Sales Charge	Am Exp
A	F	PBHG Growth Fund-PBHG/433-0051	2.3%	1.5%	3	$825	39	$3.6	no load	$1
D	A	Pennsylvania Mutual-Inv/221-4268	12.1	21.8	5	1,588	27	0.7	no load	0
C	D	Phoenix-Engemann Capital Grow-A/243-1574	3.7	5.2	3	881	29	66.9	5.75%	1
•C	•C	Pimco CCM Capital Appreciation-A/227-7737	◆	7.8	5	835	27	28.2	5.50	1
•C	•C	Pimco CCM Mid-Cap-A/227-7737	◆	13.1	4	684	28	4.5	5.50	1
•D	•A	Pimco NFJ Small-Cap Value-A/227-7737	◆	20.6	2	2,469	19	1.2	closed	1
B	D	Pimco PEA Growth-A/426-0107	6.1	9.0	3	719	34	42.1	5.50	1
•A	•F	Pimco PEA Innovation-A/426-0107	◆	0.4	3	856	NA	8.5	5.50	1
B	A	Pimco PEA Renaissance-A/426-0107	16.3	28.3	5	5,959	NA	5.2	5.50	1
A	D	Pimco PEA Target-A/426-0107	10.1	12.2	3	882	33	4.1	5.50	1
D	B	Pioneer Equity Income-A/225-6292	9.4	16.2	4	845	18	16.2	5.75	1
C	C	Pioneer Fund-A/225-6292	9.8	12.3	3	6,104	21	24.9	5.75	1
D	A	Pioneer Mid Cap Value-A/225-6292	11.2	23.8	4	1,767	21	5.4	5.75	1
D	B	Pioneer Value Fund-A/225-6292	7.0	15.5	4	3,750	19	39.6	5.75	1
B	C	T Rowe Price Blue Chip Growth/225-5132	10.1	9.2	1	7,260	31	43.7	no load	0
F	A•	T Rowe Price Capital Appreciation/225-5132	12.3	18.7	5	3,772	29	12.2	no load	0
D	B	T Rowe Price Dividend Growth/225-5132	9.5	12.2	2	687	26	27.8	no load	0
D	A	T Rowe Price Equity Income/225-5132	11.3	16.8	5	15,352	24	24.4	no load	0
B	C	T Rowe Price Equity Index 500/225-5132	9.9	12.8	2	4,179	26	45.3	no load	0
D	B	T Rowe Price Growth & Income/225-5132	8.3	12.9	4	1,853	28	32.9	no load	0
B	C	T Rowe Price Growth Stock/225-5132	10.0	9.7	5	6,356	30	40.3	no load	0
•C	•B	T Rowe Price Health Sciences/225-5132	◆	6.8	3	1,186	33	7.2	no load	0
A•	D	T Rowe Price Media & Telecom/225-5132	13.7	26.5	5	719	NA	11.0	no load	0
B	B	T Rowe Price Mid-Cap Growth/225-5132	13.1	14.3	2	11,034	30	3.9	closed	0
•C	•A	T Rowe Price Mid-Cap Value/225-5132	◆	24.5	4	3,148	29	4.1	no load	0
B	D	T Rowe Price New America Growth/225-5132	6.6	12.0	4	882	32	16.5	no load	0
D	A	T Rowe Price New Era/225-5132	10.8	37.9	4	1,674	28	10.1	no load	0
A	C	T Rowe Price New Horizons/225-5132	10.6	15.2	4	4,984	33	1.6	no load	0
A•	F	T Rowe Price Science & Technology/225-5132	5.8	6.9	4	4,265	39	25.3	no load	1
C	B	T Rowe Price Small-Cap Stock/225-5132	11.9	15.9	3	5,612	31	1.1	closed	0
D	A•	T Rowe Price Small-Cap Value/225-5132	13.3	24.1	4	4,119	28	0.6	closed	0
C	C	T Rowe Price Spectrum Growth/225-5132	9.0	15.9	4	2,266	NA	13.5	no load	0
•D	•B	T Rowe Price Value Fund/225-5132	◆	19.1	3	1,942	27	20.0	no load	0
D	•B	Putnam Asset Allocation Growth-A/662-0019	◆	13.7	5	1,344	21	17.3	5.25	1
B	C	Putnam Capital Appreciation-A/662-0019	8.0	11.9	3	748	25	16.5	5.25	1
•D	•B	Putnam Classic Equity-A/662-0019	◆	12.1	3	1,011	21	53.4	5.25	1
A	F	Putnam Discovery Growth-A/662-0019	5.8	4.3	2	1,291	31	6.8	5.25	1
D	A	Putnam Equity Income-A/662-0019	10.4	13.7	4	3,191	18	33.4	5.25	1
D	B	Putnam Fund for Growth & Inc-A/662-0019	8.8	14.2	4	17,807	19	45.3	5.25	0
B	•D	Putnam Growth Opportunities-A/662-0019	◆	1.6	1	1,280	27	72.6	5.25	1
C	B	Putnam Health Sciences-A/662-0019	11.0	2.7	2	2,889	28	41.3	5.25	1
B	D	Putnam Investors Fund-A/662-0019	7.8	12.6	1	4,431	22	38.0	5.25	1
A	F	Putnam New Opportunities-A/662-0019	6.3	7.1	3	7,107	31	8.4	5.20	1
D	•A	Putnam New Value-A/662-0019	◆	19.1	3	1,392	21	26.9	5.25	1
A•	F	Putnam OTC & Emerging Growth-A/662-0019	0.1	3.8	4	1,616	32	2.7	5.25	1
C	•C	Putnam Research Fund-A/662-0019	◆	7.5	2	1,420	24	44.2	5.25	1
A	D	Putnam Vista Fund-A/662-0019	7.5	12.9	5	2,851	29	4.9	5.25	1
A	D	Putnam Voyager Fund-A/662-0019	7.5	4.7	3	14,116	28	43.6	5.25	1
C	A	Royce Low Priced Stock-Inv/221-4268	15.7	19.7	3	3,873	29	0.8	no load	1
E	•B	Royce Opportunity-Inv/221-4268	◆	26.9	4	1,766	NA	0.4	closed	1
[illegible]	A	Royce Premier Fund-Inv/221-4268	12.9	26.4	4	2,444	29	1.4	no load	1
[illegible]	A•	Royce Total Return-Inv/221-4268	14.0	16.7	4	3,498	26	1.2	no load	1
[illegible]	•B	RS Diversified Growth/766-3863	◆	5.6	3	901	NA	0.6	closed	1

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PERFORMANCE UP	DOWN	FUND/800 PHONE	TOTAL RETURN 1/31/94 TO 7/31/04 ANNUALIZED	LATEST 12 MONTHS	TAX GRADE[1]	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	MAXIMUM SALES CHARGE	A EXP
A+	F	RS Emerging Growth/766-3863	10.6%	8.4%	2	$1,313	NA	$0.9	closed	$1
•C	•A	RS Partners Fund/766-3863	◆	31.5	1	1,469	25	1.1	no load	1
C	C	Russell Diversified Equity-S/787-7354	8.3	10.9	3	1,929	26	34.5	no load	1
C	C	Russell Quantitative Equity-S/787-7354	9.9	11.8	3	2,047	23	31.3	no load	1
F	A+	Russell Real Estate Secs-S/787-7354	12.5	23.6	5	1,113	30	3.1	no load	1
B	B	Russell Special Growth-S/787-7354	10.2	17.2	3	750	26	1.3	no load	1
A+	•F	Rydex OTC-Inv/820-0888	◆	8.0	1	869	40	26.4	no load	1
A	B	Salomon Brothers Capital-A/725-6666	13.3	18.2	4	1,535	NA	12.2	5.75%	1
B	B	Salomon Brothers Investors Value-A/725-6666	11.2	14.2	5	1,791	22	35.1	5.75	0
•C	•C	Schwab S&P 500 Fund-Sel/435-4000	◆	12.9	2	8,021	24	46.1	no load	0
C	B	Schwab Small Cap Index-Sel/435-4000	8.6	15.0	3	1,592	26	0.8	no load	0
B	D	Scudder Capital Growth Fund-A/621-1048	6.8	8.5	3	1,196	29	54.3	5.75	1
D	A	Scudder-Dreman High Return Equity-A/621-1048	12.7	20.0	4	5,302	15	29.0	5.75	1
B	C	Scudder Equity 500 Index-Inv/621-1048	9.9	12.8	3	2,378	24	46.1	no load	0
D	C	Scudder Growth & Income-A/621-1048	6.3	11.1	2	4,980	25	54.1	5.75	1
B	D	Scudder Growth-A/621-1048	2.7	5.8	3	892	30	50.5	5.75	1
D	B	Scudder Large Company Value-A/621-1048	8.4	14.8	4	1,698	19	41.7	5.75	1
A+	F	Scudder Technology-A/621-1048	8.7	5.9	3	1,359	36	30.4	5.75	1
B	C	Selected American Shares-S/243-1575	12.5	17.2	3	6,464	21	32.6	no load	0
A+	D	Seligman Communications & Info-A/221-7844	11.7	10.1	4	3,671	33	8.2	4.75	1
D	B	Sentinel Common Stock-A/233-4332	9.2	17.0	5	1,084	26	31.3	5.00	1
C	A	Sentinel Small Company-A/233-4332	12.9	17.1	5	1,285	25	1.1	closed	1
D	A+	Sequoia Fund/686-6884	14.8	12.9	4	3,880	NA	9.4	closed	1
A	C	SB Aggressive Growth-A/451-2010	13.5	9.1	1	7,672	28	15.5	5.00	1
D	B	SB Appreciation Fund-A/451-2010	9.7	12.7	4	5,453	25	35.3	5.00	0
D	B	SB Capital & Income-SB A/451-2010	9.1	15.1	5	2,155	25	16.0	5.00	1
B	C	SB Fundamental Value-A/451-2010	10.5	14.3	2	4,597	25	19.5	5.00	1
C	C	SB Growth & Income-SB A/451-2010	7.2	10.6	3	1,129	25	43.9	5.00	1
C	C	SB Large Cap Core-A/451-2010	7.7	6.1	2	3,012	27	46.2	5.00	1
D	B	SB Large Cap Value-A/451-2010	7.1	14.7	4	753	22	34.8	5.00	0
C	B	Sound Shore Fund/754-8758	11.8	17.3	2	1,273	22	12.9	no load	0
B	C	SPDRs/ETF	9.9	13.0	2	42,503	24	46.0	no load	0
B	C	SSgA S&P 500 Index/997-7327	10.0	13.0	3	1,931	24	45.9	no load	0
•B	•A	State St Research Aurora Fund-A/882-0052	◆	23.0	1	3,498	30	0.9	closed	1
B	D	State St Research Investment-A/882-0052	7.5	12.1	2	1,402	27	40.6	5.75	1
D	C	STI Classic Capital Appreciation-A/874-4770	7.2	5.6	3	1,697	27	33.8	3.75	1
C	B	STI Classic Growth & Income-A/874-4770	9.2	17.4	2	911	21	32.7	3.75	1
D	B	STI Classic Value Income Stock-A/874-4770	9.3	16.0	3	843	22	24.8	3.75	1
D	B	Strategic Partners Equity Fund-A/225-1852	7.5	12.5	5	1,782	29	40.1	5.50	0
B	C	Strong Advisor Common Stock-Z/368-3863	11.0	9.6	4	1,314	26	4.7	closed	1
A	D	Strong Growth-Inv/368-3863	10.3	7.5	4	1,498	40	12.6	no load	1
B	C	Strong Opportunity-Inv/368-3863	11.4	19.6	4	2,512	28	9.4	no load	1
A	D	TA IDEX Janus Growth-A[6]/888-233-4339	7.4	9.6	3	1,197	35	23.6	5.50	1
B	B	HONOR Third Avenue Value/443-1021	13.0	29.1	4	3,413	28	3.7	no load	1
B	A	HONOR Thompson Plumb Growth Fund/999-0887	15.1	13.6	5	1,407	25	45.2	no load	1
B	•C	Thornburg Value Fund-A/847-0200	◆	6.6	2	2,146	19	20.0	4.50	1
C	C	Thrivent Large Cap Stock-A[7]/847-4836	9.4	6.7	3	3,645	25	51.1	5.50	1
B	C	Thrivent Mid Cap Stock-A[8]/847-4836	8.3	16.9	4	836	27	3.6	5.50	1
B	B	HONOR Torray Fund/443-3036	13.1	6.8	3	1,630	24	29.5	no load	1
B	•B	Touchstone Emerging Growth-A/638-8194	◆	14.7	4	802	30	3.6	5.75	1
A	•D	Turner Midcap Growth-I/224-6312	◆	8.0	2	866	34	4.5	no load	1
B	•D	UBS Pace Large Co Growth Equity-A/647-1568	◆	5.6	2	685	27	46.6	5.50	1
D	•B	UBS Pace Large Co Value Equity-A/647-1568	◆	15.1	2	1,007	20	52.8	5.50	1

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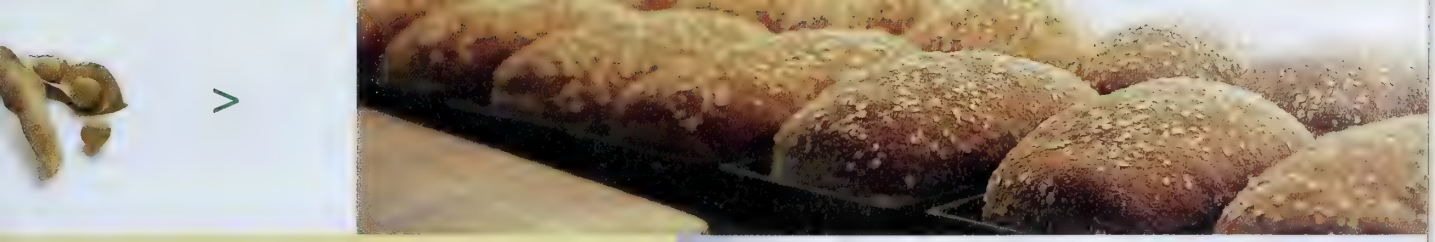

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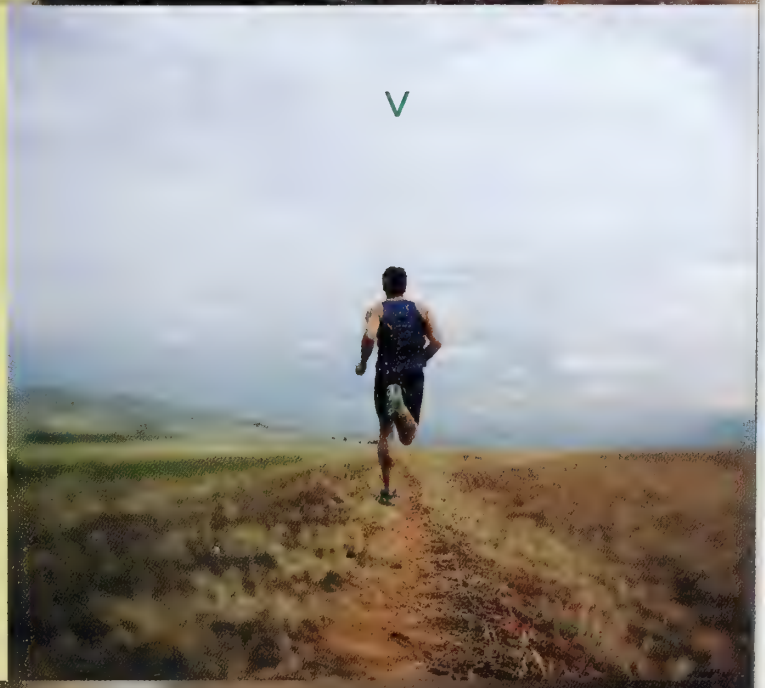

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PERFORMANCE UP	DOWN	FUND/800 PHONE	TOTAL RETURN 1/31/94 TO 7/31/04 ANNUALIZED	TOTAL RETURN LATEST 12 MONTHS	TAX GRADE	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	MAXIMUM SALES CHARGE	AN EXPE
A+	F	USAA Aggressive Growth/531-8448	6.8%	5.5%	1	$932	31	$42.5	no load	$1
C	B	USAA Growth & Income Fund/531-8448	8.6	12.7	2	1,129	26	26.3	no load	0
C	D	USAA Growth Fund/531-8448	2.8	4.4	2	795	31	51.4	no load	1
D	B	USAA Income Stock Fund/531-8448	8.1	18.4	5	1,807	17	20.6	no load	0
•C	•C	USAA S&P 500 Index-Member/531-8448	◆	12.7	2	2,458	24	46.1	no load	0
•A	•C	Vanguard Capital Opportunity-Inv/662-7447	◆	25.7	2	7,357	36	7.0	closed	0
F	B	Vanguard Dividend Growth/662-7447	5.9	15.8	5	881	26	33.0	no load	0
C	A	Vanguard Energy Fund-Inv/662-7447	13.1	44.2	4	4,057	19	20.6	no load r	0
D	B	Vanguard Equity Income-Inv/662-7447	10.4	15.9	5	3,291	21	30.2	no load	0
B	C	Vanguard Explorer Fund-Inv/662-7447	9.8	13.4	4	7,824	32	1.5	no load	0
B	C	Vanguard Extended Mkt Index-Inv/662-7447	9.3	17.0	4	7,539	28	1.8	no load	0
B	C	Vanguard 500 Index-Inv/662-7447	10.1	13.0	2	96,147	26	45.3	no load	0
B	C	Vanguard Growth & Income-Inv/662-7447	10.4	14.9	3	6,500	23	43.7	no load	0
A	D	Vanguard Growth Equity/662-7447	6.8	6.0	3	775	39	31.7	no load	0
B	D	Vanguard Growth Index-Inv/662-7447	10.0	8.0	1	9,488	33	40.9	no load	0
B	A	Vanguard Health Care-Inv/662-7447	18.7	12.5	5	21,012	30	24.2	no load r	0
•C	•B	Vanguard LifeStrategy Growth Fund/662-7447	◆	14.1	3	5,244	NA	25.4	no load	0
B	D	Vanguard Morgan Growth-Inv/662-7447	9.5	10.4	4	4,483	31	15.9	no load	0
A	C	Vanguard Primecap Fund-Inv/662-7447	14.2	19.2	3	23,772	35	20.0	closed	0
•F	•A	Vanguard REIT Index-Inv/662-7447	◆	20.1	5	4,578	32	2.9	no load r	0
•D	•A	Vanguard Selected Value/662-7447	◆	23.3	2	1,702	26	4.1	no load r	0
B	C	Vanguard Small-Cap Index-Inv/662-7447	9.5	20.0	4	7,933	28	1.2	no load	0
•C	•B	Vanguard Strategic Equity/662-7447	◆	19.8	4	2,744	24	2.6	no load	0
•B	•C	Vanguard Tax-Managed Capital Apprec-Inv/662-7447	◆	13.1	1	2,754	28	29.1	no load r	0
•C	•C	Vanguard Tax Managed Growth & Inc-Inv/662-7447	◆	13.0	2	2,383	26	45.3	no load r	0
B	C	Vanguard Total Stock Mkt Index-Inv/662-7447	9.6	13.7	2	48,054	26	22.1	no load	0
B	D	Vanguard US Growth-Inv/662-7447	4.6	5.4	4	6,527	33	40.9	no load	0
C	B	Vanguard Value Index-Inv/662-7447	9.8	18.0	4	4,654	20	35.2	no load	0
C	B	Vanguard Windsor Fund-Inv/662-7447	10.2	17.1	5	18,699	21	21.3	no load	0
C	B	Vanguard Windsor II-Inv/662-7447	11.2	20.4	5	29,116	20	34.1	no load	0
A	•D	VanKampen Aggressive Growth-A/421-5666	◆	14.2	3	1,384	36	6.2	5.75%	1
C	A	VanKampen Comstock Fund-A/421-5666	12.7	19.1	5	11,732	24	28.5	5.75	0
A+	D	VanKampen Emerging Growth-A/421-5666	9.2	4.5	4	6,300	38	22.4	5.75	1
B	D	VanKampen Enterprise Fund-A/421-5666	5.7	4.2	3	1,608	33	46.0	5.75	1
C	B	VanKampen Growth & Income-A/421-5666	11.5	15.1	5	6,121	24	32.0	5.75	0
D	C	VanKampen Pace Fund-A/421-5666	5.2	3.4	4	1,451	34	53.7	5.75	1
B	B	Victory Diversified Stock-A/539-3863	12.6	15.8	5	1,845	27	48.8	5.75	1
C	B	W&R Advisors Accumulative-A/888-923-3355	9.8	6.3	5	1,964	25	35.3	5.75	1
D	C	W&R Advisors Core Investment-A/888-923-3355	8.0	8.4	5	4,148	27	45.9	5.75	1
A	D	W&R Advisors New Concepts-A/888-923-3355	10.2	14.7	4	1,141	37	6.6	5.75	1
A+	D	W&R Advisors Science & Tech-A/888-923-3355	15.0	14.7	5	1,987	37	9.6	5.75	1
B	D	W&R Advisors Vanguard Fund-A/888-923-3355	7.8	3.3	3	1,715	37	20.9	5.75	1
B	A+	Wasatch Core Growth/551-1700	16.5	15.6	3	1,475	19	1.6	closed	1
B	A	Wasatch Small Cap Growth/551-1700	13.5	5.4	4	1,177	32	1.2	closed	1
C	A	HONOR Weitz Partners Value/232-4161	14.7	14.1	3	2,695	NA	9.1	no load	1
C	A	HONOR Weitz Value Fund/232-4161	14.7	15.5	4	4,236	NA	9.4	no load	1
C	•C	Wells Fargo Diversified Equity-A/222-8222	◆	11.9	3	1,380	27	28.1	5.75	1
D	•B	Wells Fargo Equity Income-A/222-8222	◆	14.2	4	1,147	23	57.5	5.75	1
A+	F	White Oak Growth Stock/888-462-5386	10.0	3.1	1	1,770	37	49.4	no load	1
C	B	WM Growth & Income-A/222-5852	10.2	13.2	2	686	22	49.6	5.50	0
C	•B	WM SAM–Conservative Growth-A/222-5852	◆	12.9	4	2,440	NA	32.7	5.50	1
B	•C	WM SAM–Strategic Growth-A/222-5852	◆	14.7	3	1,390	NA	31.7	5.50	1
A	B	WM West Coast Equity-A/222-5852	14.7	16.4	4	734	26	7.3	5.50	0

HONOR ON FORBES HONOR ROLL (SEE GATEFOLD FOLLOWING PAGE 232) FOOTNOTES PAGE 282 FOR MORE FUNDS GO TO: WWW.FORBES.COM/FUN

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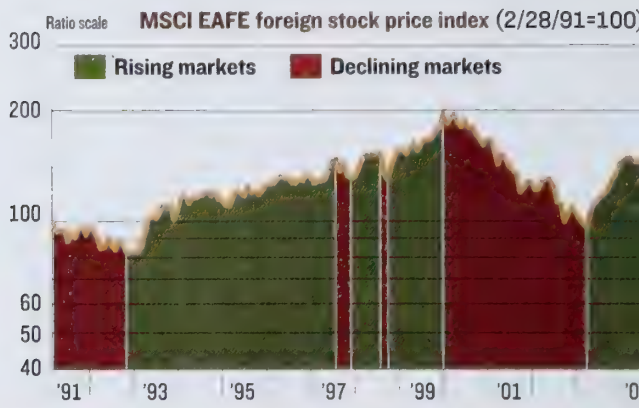
Fund Survey

Foreign Stock

These funds specialize in equities of non-U.S. companies.



PERFORMANCE UP, DOWN	FUND/800 PHONE	TOTAL RETURN 5-YEAR ANNUALIZED	TOTAL RETURN LATEST 12 MONTHS	TAX GRADE	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE P/E	MEDIAN MARKET CAP ($BIL)	MAXIMUM SALES CHARGE	ANN EXP
B •C	AIM International Growth-A/347-1919	-1.1%	21.5%	2	$1,619	24	$16.7	5.50%	$1
•C •B	American AAdvantage Intl Equity-PA/388-3344	2.9	26.8	5	1,554	19	21.1	no load	1
•A •B	American Century Intl Discovery-Inv/345-2021	6.1	24.1	3	1,161	30	2.3	closed	1
B •D	American Century Intl Growth-Inv/345-2021	-1.6	13.8	4	2,818	26	20.1	closed	1
A B	American Funds EuroPacific Growth-A/421-4120	2.2	23.0	4	41,618	23	17.7	5.75	0
•A •C	Artisan International-Inv/344-1770	3.6	18.1	3	5,959	22	16.5	no load	1
B D	AXP International Fund-A/297-5300	-7.0	17.2	5	427	21	22.1	5.75	1
•C B	Bernstein Emerging Markets Value/212-756-4097	8.3	35.3	4	1,207	16	3.0	no load[10]	1
C •A	Bernstein Tax-Managed Intl/212-756-4097	2.8	16.9	3	4,352	20	23.9	no load	1
B •B	Wm Blair International Growth-N/742-7272	7.0	21.6	5	2,392	25	8.1	closed	1
A •C	Columbia Acorn International-A/547-1707	3.8	34.1	4	1,673	20	1.6	5.75	1
C •D	Columbia International Equity-A/547-1707	-4.5	18.1	4	477	23	20.4	5.75	1
C •C	Columbia International Stock-A/547-1707	-0.6	18.0	4	584	22	21.7	5.75	1
D •A	Delaware International Value Equity-A/523-1918	2.9	21.9	5	507	19	23.9	5.75	2
•C A	Dreyfus Premier Emerging Markets-A/782-6620	8.9	24.6	5	886	14	4.1	closed	1
•C •A	Dreyfus Premier Intl Value-A/782-6620	3.3	28.0	3	600	17	14.8	5.75	1
D B	Evergreen International Equity-A/343-2898	1.8	21.2	3	1,757	23	18.3	5.75	1
B D	Fidelity Adv Overseas-T/877-208-0098	-1.7	18.9	3	1,500	25	23.4	3.50	1
B •C	Fidelity Aggressive International/544-6666	0.5	8.6	2	648	25	8.4	no load	1
A •A	Fidelity Diversified International/544-6666	6.7	24.2	3	17,369	NA	7.8	no load	1
D D	Fidelity Emerging Markets/544-6666	1.7	17.6	3	530	17	5.8	no load	1
A C	Fidelity Europe Fund/544-6666	0.6	26.5	4	1,560	24	11.3	no load	1
C B	Fidelity Intl Growth & Income/544-6666	4.4	24.6	4	2,016	23	12.3	no load	1
C •D	Fidelity Japan Fund/544-6666	-2.7	26.2	4	663	31	8.2	no load	1
A •D	Fidelity Japan Smaller Cos/544-6666	2.4	56.7	5	1,441	36	1.1	no load	1
B D	Fidelity Overseas Fund/544-6666	-1.3	19.5	4	3,919	25	19.6	no load	1
C D	Fidelity Pacific Basin/544-6666	-0.3	21.9	3	442	28	9.4	no load	1
B D	Fidelity Southeast Asia/544-6666	2.2	15.4	3	417	22	4.7	no load	1
B •C	First American International-A/677-3863	-2.0	17.1	4	1,236	22	16.2	5.50	1
D •A	First Eagle Overseas-A/747-2008	15.7	27.9	5	6,357	23	2.5	closed	1
C •A	Franklin Mutual-European-A/342-5236	12.1	21.7	5	1,201	19	7.0	5.75	1
A A	Harbor International-Inv/422-1050	4.7	23.6	5	7,053	22	22.3	no load	1
A •A	ING International Value-A/992-0180	6.6	33.4	4	3,650	22	18.1	closed	1
B •D	iShares MSCI Japan Index/ETF	-5.3	31.1	1	5,560	24	14.0	no load	0
A •D	Janus Overseas Fund/525-8983	0.9	21.4	3	2,192	25	8.3	no load	0
C F	Japan Fund/535-2726	0.3	37.8	5	417	26	9.9	no load	1
A •A	Julius Baer-International Equity-A/435-4659	8.3	25.0	2	6,034	21	16.8	no load	1

FOOTNOTES PAGE 282

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Performance Up	Performance Down	Fund/Sponsor/Phone	Total Return 5-Year Annualized	Total Return Latest 12 Months	Tax Grade	Assets 7/31/04 ($Mil)	Weighted Average P/E	Median Market Cap ($Bil)	Maximum Sales Charge	[illegible]
C	B	Lazard Emerging Markets-Open/823-6300	5.2%	28.2%	3	$643	14	$4.4	no load	$1
D	•B	Lazard International Equity-Open/823-6300	-2.9	15.7	4	1,550	18	35.4	no load	1
•C	•A	Lazard International Small Cap-Open/823-6300	8.6	37.2	2	692	20	2.2	no load	1
•C	•C	Marshall International Stock-Y/580-3863	-0.5	14.8	3	463	30	17.7	no load	1
•C	•A	Matthews Asian Growth & Inc/789-2742	16.0	26.6	5	958	20	4.2	closed	1
A	D	Matthews Pacific Tiger Fund/789-2742	7.0	23.1	5	572	23	3.0	no load	1
B	A	Merrill EuroFund-A/637-3863	1.8	19.7	5	619	17	26.1	5.25%	1
B	A	Merrill International Value-A/637-3863	2.8	26.2	5	662	17	17.0	5.25	1
C	C	Merrill Pacific Fund-A/637-3863	1.2	28.7	5	642	25	7.8	5.25	1
•B	•B	MFS Research International-A/225-2606	3.7	24.3	1	1,238	21	15.7	5.75	1
A•	B	MS European Growth-A/869-6397	-0.4	13.9	5	740	20	30.7	5.25	1
B	•B	Nations International Equity-Inv A/321-7854	0.0	20.5	3	917	24	24.8	5.75	1
•A	•A	Nations International Value-Inv A/321-7854	7.5	31.7	3	3,365	NA	18.4	closed	1
•B	•C	Northern International Growth Equity/595-9111	-2.7	22.1	5	737	20	20.1	no load	1
B	•A	Oakmark International Fund-I/625-6275	7.3	23.6	3	4,120	18	10.5	no load	1
•A	•A	Oakmark International Small Cap-I/625-6275	9.8	43.0	4	673	25	0.9	closed	1
•D	•C	Old Westbury-International Fund/607-2200	-2.7	24.3	2	745	21	26.8	no load	1
•C	•C	One Group Diversified Intl-A/480-4111	-1.6	19.6	1	1,067	24	12.4	5.25	1
•B	•C	One Group Intl Equity Index-A/480-4111	-1.8	25.5	1	835	24	16.9	5.25	1
•B	A	Oppenheimer Developing Mkts-A/525-7048	14.4	36.2	5	1,791	20	2.0	5.75	1
•A	•D	Oppenheimer International Grow-A/525-7048	2.0	25.0	2	884	26	7.1	5.75	1
B	•A	Preferred International Value/662-4769	5.2	25.9	5	530	20	17.0	no load	1
•B	C	T Rowe Price Emerging Mkts Stock/225-5132	6.6	24.3	2	483	23	4.4	no load r	1
B	B	T Rowe Price European Stock/225-5132	-0.5	19.5	4	751	21	26.2	no load	1
A	C	T Rowe Price International Discovery/225-5132	10.0	36.0	4	811	23	0.7	no load r	1
C	C	T Rowe Price International Stock/225-5132	-3.1	16.8	4	4,879	23	24.8	no load	0
C	D	T Rowe Price New Asia/225-5132	3.1	18.8	2	806	22	3.5	no load r	1
A	B	Putnam Europe Equity-A/662-0019	-1.7	17.8	3	550	19	35.8	5.25	1
•A	•C	Putnam Intl Capital Opportunities-A/662-0019	5.5	32.1	1	1,139	17	2.3	5.25	1
A•	B	Putnam International Equity-A/662-0019	0.9	15.9	3	6,595	18	32.7	5.25	1
•C	•B	Putnam Intl Growth & Income-A/662-0019	0.3	24.9	5	592	17	29.8	5.25	1
•A	•F	Putnam intl New Opportunities-A/662-0019	-3.7	16.9	4	712	22	17.2	5.25	1
D	C	Russell Emerging Markets-S/787-7354	3.3	25.4	3	508	20	4.9	no load	2
D	C	Russell International Secs-S/787-7354	-0.9	21.3	3	1,637	22	19.0	no load	1
•C	•C	Schwab International Index-Sel/435-4000	-1.9	23.0	2	1,192	19	34.6	no load	0
•A	•B	Schwab International MarketMasters/435-4000	4.9	24.5	5	500	25	5.9	no load	1
C	D	Scudder International Fund-A/621-1048	-3.5	15.8	3	1,580	20	34.9	5.75	1
C	B	SSgA Emerging Markets/997-7327	4.3	22.9	4	666	18	7.4	no load	1
•D	•B	Strategic Partners Intl Value-A/225-1852	-1.6	16.3	2	424	20	40.4	5.50	1
C	B	Templeton Developing Markets-A/342-5236	3.0	28.1	4	2,209	17	4.7	5.75	2
C	A	Templeton Foreign Fund-A/342-5236	3.5	17.7	4	15,220	23	17.2	5.75	1
D	•A	Templeton Foreign Smaller Cos-A/342-5236	6.5	26.3	3	467	23	1.1	5.75	1
•D	•D	UBS Pace International Eq-A/647-1568	-2.6	25.5	3	566	20	20.9	5.50	1
•D	•A	UMB Scout WorldWide/996-2862	1.6	19.4	2	716	25	15.6	no load	1
C	B	USAA International Fund/531-8448	1.6	22.4	2	477	22	19.2	no load	1
C	B	Vanguard Emerging Mkts Stock Idx-Inv/662-7447	4.6	23.1	5	2,435	20	7.7	no load[10]	0
B	B	Vanguard European Stock Index-Inv/662-7447	-0.3	22.9	3	8,492	20	32.5	no load	0
A	•B	Vanguard International Explorer/662-7447	7.1	34.3	5	1,412	21	1.1	no load	0
B	B	Vanguard International Growth-Inv/662-7447	-0.1	20.2	4	7,996	22	20.8	no load	0
D	B	Vanguard International Value/662-7447	1.0	23.5	3	1,971	19	21.0	no load	0
E	D	Vanguard Pacific Stock Index-Inv/662-7447	-3.1	29.2	1	4,129	28	12.4	no load	0
C	•B	Vanguard Total Intl Stock Index/662-7447	-0.7	24.5	3	6,510	NA	22.0	no load	0
A	D	W&R Advisors Intl Growth-A/888-923-3355	-3.6	12.9	5	729	22	25.9	5.75	1

FOOTNOTES PAGE 282

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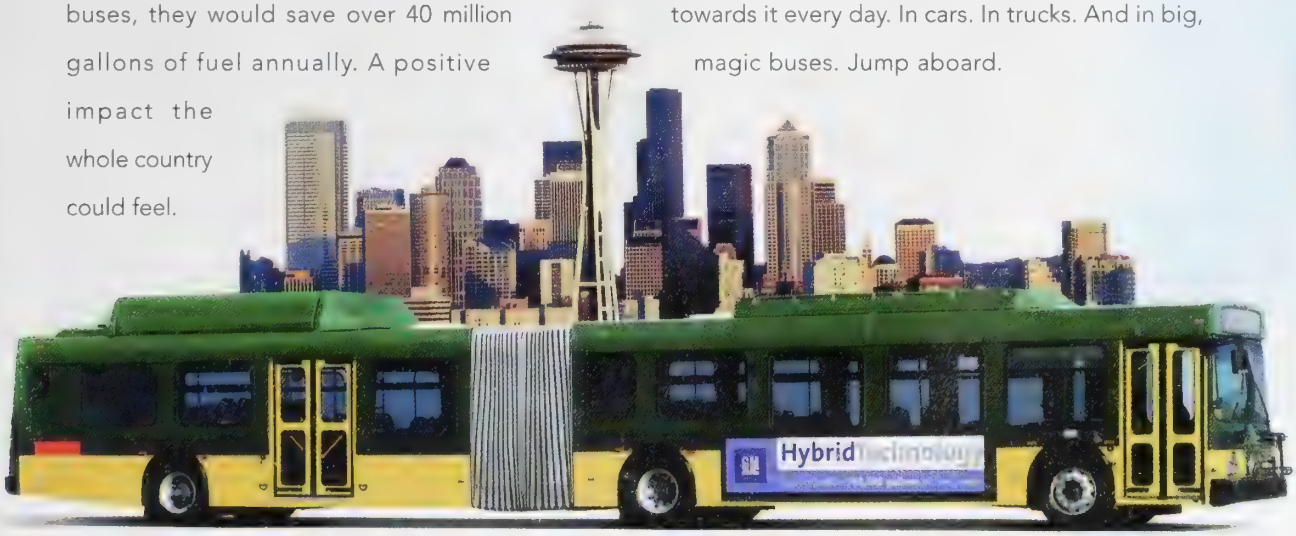

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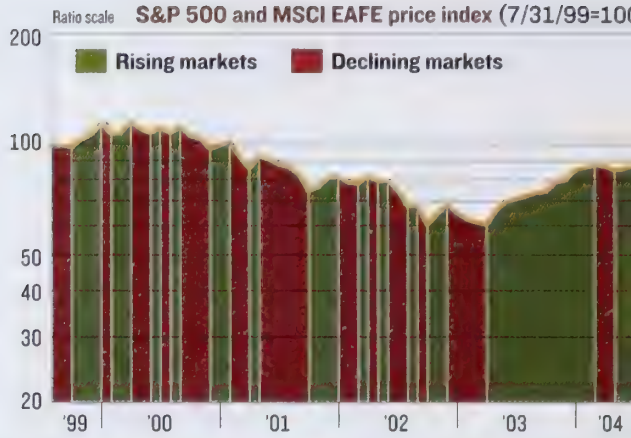
Fund Survey

Global Stock

These portfolios blend U.S. and foreign shares. They are benchmarked against a blend of U.S. and foreign stock indexes.



PERFORMANCE UP	DOWN	FUND	TOTAL RETURN 1-YEAR	TOTAL RETURN 5-YEAR ANNUALIZED	ANNUAL EXPENSES PER $100
A	D	AIM Global Aggressive Growth-A	21.5%	1.0%	$2.11
B	C	AIM Global Equity-A[12]	22.5	4.7	2.00a
B	D	AIM Global Growth-A	14.6	-4.8	2.04
F	A	AIM Global Health Care-A	11.6	7.7	1.94
D	A+	American Century Global Gold-Inv	10.3	17.9	0.69
B	C	American Century Global Growth-Inv	14.2	2.6	1.31
C	B	American Funds Cap World Grow & Inc-A	24.3	7.7	0.81
B	C	American Funds New Perspective-A	19.0	3.4	0.83
A	D	American Funds Smallcap World-A	21.7	2.0	1.19
A	C	Atlas Global Growth	19.8	6.1	1.54
C	D	AXP Threadneedle Global Eq-A[13]	10.4	-6.6	1.50
D	B	Calamos Global Growth & Income-A	11.1	6.4	1.69
D	C	Dreyfus Premier WW Growth-A	14.2	-1.4	1.27
B	B	Eaton Vance WW Health Sciences-A	2.2	14.5	1.80a
D	A	Evergreen Asset Allocation-A	14.5	8.2	1.17
B	A+	Evergreen Precious Metals-A	24.2	23.9	1.24a
C	B	Fidelity Adv Natural Resources-T	34.8	7.7	1.47
D	A	Fidelity Select-Gold	0.2	15.3	1.04
B	C	Fidelity Worldwide Fund	16.1	2.6	1.31
D	A	First Eagle Global-A	23.9	15.8	1.32
D	A+	First Eagle Gold-A	10.9	25.4	1.49
C	D	First Investors Global Fund-A	15.4	-2.5	1.88
C	A	Franklin Gold & Precious Metals-A	16.7	15.3	1.09
D	A	Franklin Mutual-Discovery-A	20.2	9.0	1.43a
D	C	Fremont Global Fund	11.2	1.0	1.06
B	D	Gabelli Global Telecommunications	16.7	-4.0	1.62
A	D	Hartford Global Leaders-A	17.8	1.5	1.54a
B	B	Ivy Global Natural Resources-A	43.1	16.7	1.61a
D	B	Janus Global Life Sciences	13.5	5.6	0.99
A+	F	Janus Global Technology	3.5	-9.7	1.07
B	D	Janus Worldwide Fund	8.0	-4.0	0.93
B	D	Jennison Global Growth-A	9.4	-3.2	1.37a
A	B	Jennison Natural Resources-A	42.8	18.1	1.41a
D	B	Merrill Global Allocation-A	18.1	8.4	1.18a
C	D	Merrill Global Growth-A	18.7	-5.2	1.42
A	C	Merrill Global SmallCap-A	12.5	14.1	1.58
D	C	Merrill Global Value Fund-A	14.5	-0.1	1.47
D	B	Merrill Natural Resources-A	37.2	13.3	1.38

PERFORMANCE UP	DOWN	FUND	TOTAL RETURN 1-YEAR	TOTAL RETURN 5-YEAR ANNUALIZED	A
C	C	MFS Global Equity-A	19.5%	2.4%	$
A	D	MFS Global Growth-A	15.9	1.5	
F	A	MFS Global Total Return-A	15.3	4.8	
C	D	MS Global Advantage-A	13.0	-5.9	
C	C	MS Global Dividend Growth Secs-A	20.2	1.6	
D	C	MS Global Utilities-A	14.0	-1.7	
A	C	Oppenheimer Global Fund-A	21.2	6.7	
A+	D	Oppenheimer Global Oppors-A	27.5	4.8	
C	A	Oppenheimer Gold & Special Mins-A	21.1	16.0	
B	B	Pimco RCM Global Healthcare-A	4.5	13.8	
A+	F	Pimco RCM Global Technology-A	10.9	0.8	
F	B	Purisima Total Return	12.5	2.3	
B	D	Putnam Global Equity-A	13.7	-5.8	
C	B	RS Contrarian Value	32.0	13.3	
D	A	RS Global Natural Resources	38.9	15.8	
A	D	Scudder Global Discovery-A	19.6	3.9	
D	C	Scudder Global Fund-A	15.8	-0.7	
B	A+	Scudder Gold & Precious Metals-A	30.3	24.3	
A+	F	Seligman Global Technology-A	8.2	-5.7	
A	A	State St Research Global Resources-A	63.8	26.6	
B	D	TA IDEX Templeton Great Cos Global-A[14]	7.2	-4.9	
C	C	Templeton Capital Accumulator-A	20.0	3.0	
C	C	Templeton Global Opportunities-A	20.5	1.9	
B	C	Templeton Global Smaller Cos-A	30.6	6.3	
C	B	Templeton Growth Fund-A	18.3	6.3	
C	C	Templeton World Fund-A	16.4	2.8	
D	B	Tweedy, Browne Global Value	27.5	5.4	
D	A	UBS Global Allocation-A	13.8	5.7	
D	C	UBS Global Equity-A	13.8	0.4	
C	A	US Global World Precious Minerals	40.7	15.4	
D	B	USAA Cornerstone Strategy	13.4	2.9	
B	A+	USAA Precious Metals & Minerals	19.4	23.7	
C	C	USAA World Growth Fund	19.8	-1.1	
C	B	Vanguard Global Equity	24.4	7.2	
B	A	Vanguard Precious Metals & Mining[16]	26.6	18.7	
D	C	VanKampen Global Eq Allocation-A	15.5	-1.4	
D	A	VanKampen Global Franchise-A	22.9	13.1	
D	C	VanKampen Global Value Equity-A	18.9	1.0	

FOOTNOTES PAGE 282

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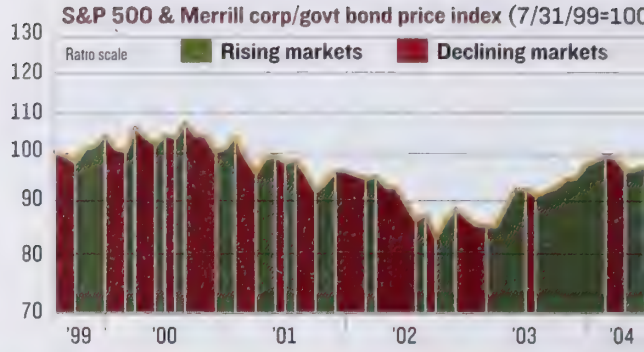
Fund Survey

Balanced

These funds mix stocks and bonds. They are scored over five years against a benchmark blending the S&P 500 and a Merrill Lynch bond index.



Performance Up	Performance Down	Fund	Total Return 1-Year	Total Return 5-Year Annualized	Annual Expenses Per $100
A	D	AIM Balanced Fund-A	9.1%	-1.3%	$1.10
B	B	AllianceBernstein Balanced Shares-A	11.7	5.1	1.12
C	B	American AAdvantage Balanced-PA	14.5	5.0	0.94
B	C	American Century Balanced-Inv	10.9	1.9	0.90
D	A	American Century Strat Alloc-Con-Inv	8.4	4.7	1.00
B	A	American Funds American Balanced-A	13.1	7.3	0.67
C	A	American Funds Income Fund of America-A	15.4	6.5	0.61
B	D	AXP Managed Allocation-A	12.1	0.4	0.96
C	D	AXP Mutual Fund-A	10.2	-4.3	1.01
A	B	Calamos Convertible Fund-A	12.0	8.8	1.15a
A+	B	Calamos Growth & Income-A	10.0	11.3	1.14
F	A+	Calamos Market Neutral-A	4.9	8.3	1.15a
C	D	Columbia Liberty Fund-A	8.5	-0.4	1.23
B	A	Dodge & Cox Balanced Fund	14.6	9.7	0.54
A	C	Dreyfus Premier Balanced Opp-A	8.5	7.1	1.08
B	D	Dryden Active Allocation-A	12.7	2.4	1.10a
C	C	Evergreen Balanced-A	7.6	0.9	1.00
C	D	Evergreen Foundation Fund-A	8.1	-0.9	1.51
C	C	Fidelity Adv Balanced-T	5.1	-0.1	1.22a
B	C	Fidelity Asset Manager	7.0	2.8	0.73
B	C	Fidelity Balanced Fund	12.8	4.8	0.65
A+	D	Fidelity Convertible Securities	10.7	8.5	0.82
D	A	Fidelity Freedom 2000	5.2	3.7	0.71
C	B	Fidelity Freedom 2010	8.3	3.2	0.08a
A	D	Fidelity Freedom 2020	10.9	1.7	0.87
A	F	Fidelity Freedom 2030	11.9	0.6	0.89
F	A+	Fidelity Freedom Income	4.3	4.1	0.68
C	B	Fidelity Puritan Fund	13.4	4.0	0.63
A	B	FPA Crescent	15.1	11.8	1.41
D	A+	Franklin Income Fund-A	16.4	9.4	0.69
C	C	Hartford Advisers Fund-A	7.4	0.4	1.32
D	B	Janus Balanced Fund	8.7	2.4	0.89
B	B	Lord Abbett Balanced Fund-A	11.8	4.2	0.40a
A	C	MainStay Convertible-A	9.0	5.8	1.33
B	D	MainStay Total Return Fund-A	7.1	-1.7	1.30
D	A	MFS Total Return Fund-A	11.1	5.6	0.91
B	B	Nations Convertible Secs-Inv A	15.3	7.2	1.22a
B	D	Nations LifeGoal Balanced Growth-Inv A	11.3	4.8	0.50a
B	A	Oakmark Equity & Income-I	14.5%	11.8%	$[illegible]
C	B	One Group Investor Balanced-A	9.5	3.0	[illegible]
D	A	One Group Inv Conservative Growth-A	7.1	3.9	[illegible]
A	C	Oppenheimer Balanced-A[17]	11.1	4.3	[illegible]
A	C	Oppenheimer Capital Income-A	10.7	3.7	[illegible]
A	C	Oppenheimer Convertible Secs-A	9.0	3.8	[illegible]
A	D	Oppenheimer Quest Balanced-A[18]	15.0	3.6	[illegible]
C	C	Oppenheimer Quest Oppor Value-A	12.3	1.4	[illegible]
D	B	Pax World Balanced Fund	10.2	2.4	[illegible]
B	C	Phoenix-Oakhurst Balanced Fund-A	8.3	2.8	[illegible]
C	C	T Rowe Price Balanced Fund	11.6	3.0	[illegible]
B	B	T Rowe Price Personal Strategy Bal	13.8	4.4	[illegible]
B	D	Putnam Asset Allocation Balanced-A	10.7	1.9	[illegible]
D	A	Putnam Asset Allocation Conserv-A	7.4	3.6	[illegible]
A	D	Putnam Convertible Income-Growth-A	16.1	2.9	[illegible]
D	B	George Putnam Fund of Boston-A	9.8	2.7	[illegible]
C	C	Scudder Balanced-S	7.2	0.1	[illegible]
A+	F	Scudder Flag Inv Value Builder-A	12.1	2.3	[illegible]
C	C	Scudder Lifecycle Long Range-Inv	10.3	1.3	[illegible]
C	D	Scudder Total Return-A	6.9	-0.6	[illegible]
B	D	SB Dividend and Income-A	11.3	0.1	[illegible]
A	C	State St Research Asset Allocation-A	13.9	5.5	[illegible]
A	F	UBS US Allocation-A[19]	13.4	-1.5	[illegible]
A	C	USAA Balanced Strategy	9.4	4.5	[illegible]
A	D	Vanguard Asset Allocation-Inv	12.3	1.9	[illegible]
B	C	Vanguard Balanced Index-Inv	10.1	2.4	[illegible]
A	C	Vanguard Convertible Securities	14.1	7.5	[illegible]
D	A	Vanguard LifeStrategy Conservative Gr	8.9	3.8	[illegible]
B	C	Vanguard LifeStrategy Moderate Growth	11.7	2.4	[illegible]
B	B	Vanguard STAR Fund	12.6	4.8	[illegible]
F	A+	Vanguard Wellesley Income-Inv	7.9	7.2	[illegible]
C	B	Vanguard Wellington Fund-Inv	13.4	5.3	[illegible]
B	B	VanKampen Equity & Income-A	12.2	6.9	[illegible]
D	A+	W&R Advisors Asset Strategy-A	7.1	7.0	[illegible]
A+	F	W&R Advisors Retirement-A	6.0	0.3	[illegible]
B	D	Wells Fargo Asset Allocation-A	10.8	0.9	[illegible]
B	C	Wells Fargo Growth Balanced-A	9.2	2.5	[illegible]
B	B	WM SAM-Balanced-A	10.9	5.0	[illegible]

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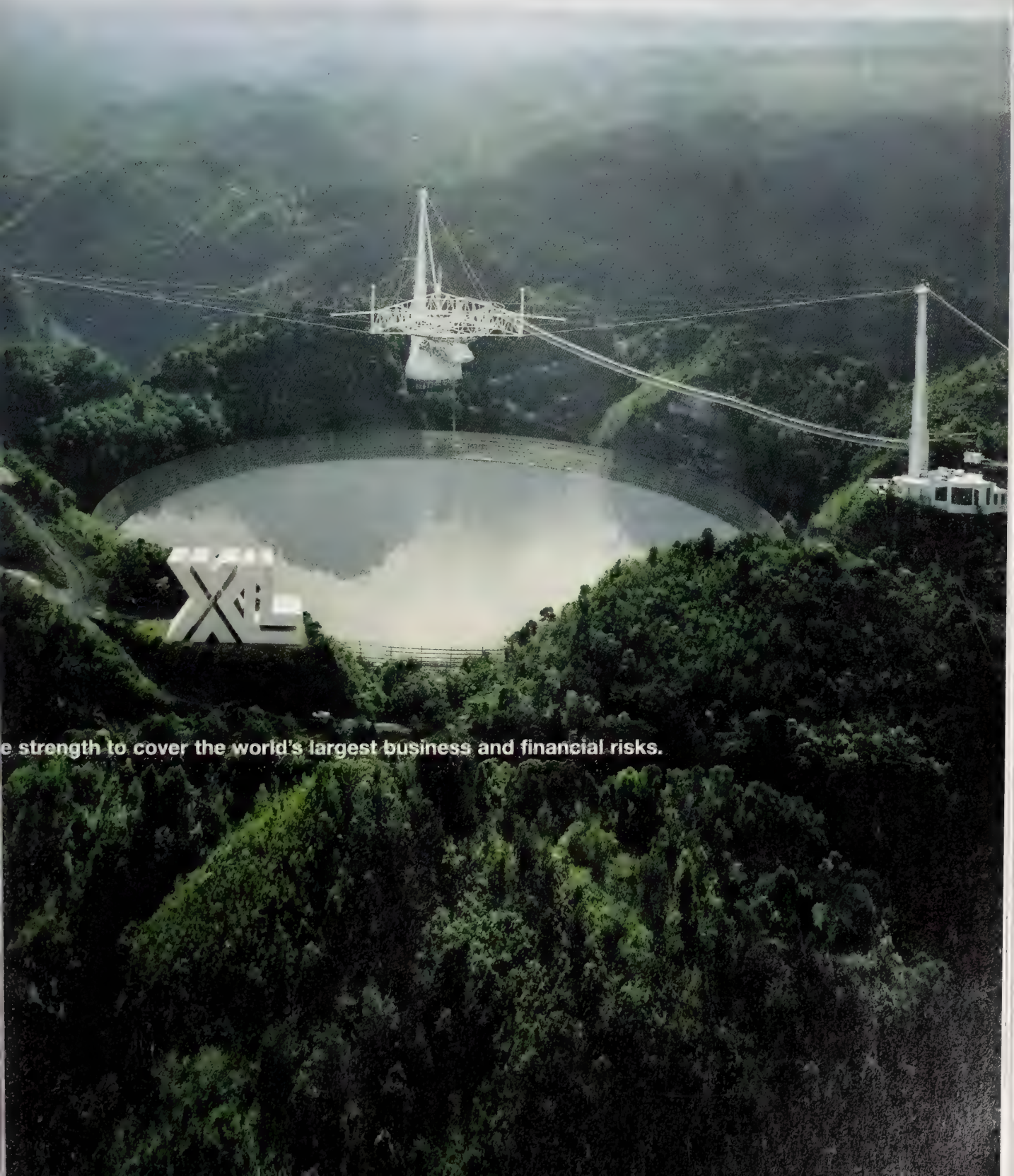

Fund Survey

Junk Bond

High-yield bonds behave more like stocks than typical bonds. We grade junk bond funds that have been in existence at least two full market cycles.

PERFORMANCE UP	DOWN	FUND/800 PHONE	ANNUALIZED TOTAL RETURN 1/31/94 TO 7/31/04	YIELD	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE MATURITY (YEARS)	WEIGHTED AVERAGE DURATION (YEARS)	MAXIMUM SALES CHARGE	ANN EXPE F $1
B	F	AIM High Yield-A/347-1919	2.0%	8.1%	$1,268	6.9	4.3	4.75%	$1.
•C	•D	AllianceBernstein High Yield-A/227-4618	◆	8.4	578	7.5	4.3	4.25	1.
A	B	American Funds American High-Inc-A/421-4120	7.1	7.0	8,991	5.5	3.8	3.75	0.
B	C	AXP High Yield Bond-A/297-5300	4.8	7.3	2,624	5.4	4.8	4.75	1.
D	A+	Columbia High Yield-A/547-1707	6.7	6.3	1,658	4.6	4.2	4.75	1.
C	C	Columbia High Yield Opportunity-A/547-1707	5.2	7.0	610	7.1	3.7	4.75	1.
B	C	Dryden High Yield Fund-A/225-1852	5.5	7.5	1,924	6.0	4.4	4.50	0.
C	B	Eaton Vance High Income-B/225-6265	5.7	8.2	728	6.8	3.6	5.00 b	1.
B	A	Eaton Vance Income Fund of Boston-A/225-6265	7.2	8.6	1,580	6.9	3.7	4.75	1.
F	B	Evergreen High Yield Bond-A/343-2898	4.4	7.6	1,112	7.7	5.2	4.75	1.
B	C	Federated High Income Bond-A/341-7400	5.8	7.7	1,863	4.8	3.5	4.50	1.
A+	D	Fidelity Adv High Inc Adv-T/877-208-0098	6.7	10.3	2,364	NA	NA	3.50	1.
B	B	Fidelity Capital & Income/544-6666	6.7	8.2	4,207	NA	NA	no load	0.
A	C	Fidelity High Income/544-6666	6.2	8.1	2,819	NA	NA	no load r	0.
B	B	First Investors Fund for Income-A/423-4026	6.4	7.3	584	NA	NA	5.75	1.
A	C	Franklin AGE High Income-A/342-5236	6.3	7.3	2,868	8.3	3.9	4.25	0.
A	C	John Hancock High Yield-A[20]/695-7389	6 0	8.6	944	6.5	3.3	4.50	1.
D	A	Lord Abbett Bond Debenture-A/874-3733	6.3	6.6	8,255	8.2	5.2	4.75	1.
A	B	MainStay High Yield Corp Bond-A/624-6782	8.5	7.5	4,291	5.8	3.7	4.50	0.
B	D	Merrill Bond–High Income-A/637-3863	5.1	7.0	1,840	NA	NA	4.00	0.
C	B	MFS High Income Fund-A/225-2606	5.8	7.7	1,457	8.0	4.3	4.75	0.
C	F	MS High Yield Secs-A/869-6397	-2.0	6.8	577	7.3	4.0	4.25	1.
D	•A	NB High Income Bond-Inv/877-9700	◆	6.3	704	4.9	3.3	no load	0.
A	B	Northeast Investors Trust/225-6704	6.4	8.2	1,893	5.9	NA	no load	0.
D	B	Oppenheimer Champion Income-A/525-7048	5.9	7.5	1,668	4.3	3.7	4.75	1.
D	B	Oppenheimer High Yield-A/525-7048	5.4	7.6	1,610	4.8	3.8	4.75	1.
C	•B	Pimco High-Yield Fund-A/227-7737	◆	6.8	6,700	6.5	4.4	4.50	0.
D	A+	T Rowe Price High Yield/225-5132	6.5	8.1	3,957	7.8	3.4	closed	0.
C	C	Putnam High Yield Advantage-A/662-0019	4.7	7.7	1,217	7.2	4.1	closed	1.
C	C	Putnam High Yield Trust-A/662-0019	5.2	7.6	2,932	6.9	3.9	4.50	0.
C	•C	Salomon Brothers High-Yield Bond-A/725-6666	◆	7.0	1,906	8.4	4.7	4.50	1.
C	C	Scudder High Income-A/621-1048	5.6	8.5	2,401	7.8	5.4	4.50	0.
B	D	Seligman High-Yield Bond-A/221-7844	3.2	8.1	630	NA	NA	4.75	1.
B	D	SB High Income-A/451-2010	4.4	9.0	1,197	8.0	4.4	4.50	1.
C	D	Thrivent High Yield-A[21]/847-4836	3.6	7.7	623	NA	NA	4.50	1.
D	A	Vanguard High-Yield Corp-Inv/662-7447	6.2	7.5	8,855	6.7	4.5	no load r	0.
C	D	VanKampen High Inc Corp Bond-A/421-5666	4.1	7.2	569	7.0	3.9	4.75	1.
D	A	W&R Advisors High Income-A/888-923-3355	5.9	7.0	912	4.9	4.4	5.75	1.

FOOTNOTES PAGE 282

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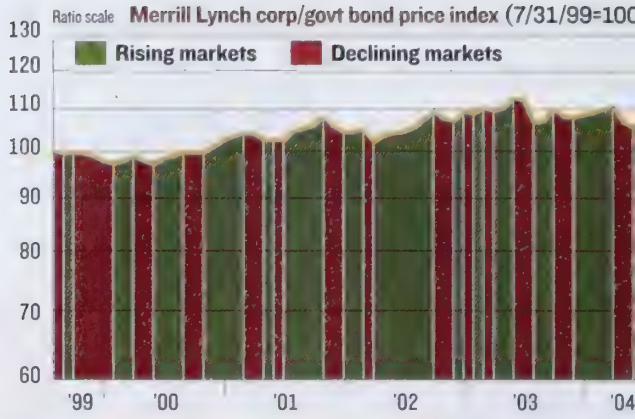
Fund Survey

Taxable Bonds

Long-term funds tend to get good grades for up markets (falling rates, rising prices) and bad grades for down markets. The reverse is true for short-term funds.



PERFORMANCE UP	PERFORMANCE DOWN	FUND	5-YEAR ANNUALIZED TOTAL RETURN	WEIGHTED AVERAGE DURATION (YEARS)	ANNUAL EXPENSES PER $100
C	B	American Century GNMA-Inv	6.1%	1.7	$0.59
C	B	American Funds Bond Fund of America-A	6.9	4.2	0.67
D	B	American Funds Int Bond Fund of America-A	5.7	2.1	0.70
B	C	American Funds US Govt Securities-A	6.0	3.3	0.76
F	A+	AMF–Adjustable Rate Mortgage	4.1	0.7	0.44a
C	C	AXP Diversified Bond-A	5.3	4.3	0.98
D	B	AXP Short Duration US Govt-A	4.3	4.2	0.97
C	C	Bernstein Intermediate Duration	5.9	4.1	0.61[11]
B	C	BlackRock Core Bond Total Return-Inv A	6.9	3.7	0.90a
D	B	BlackRock Low Duration Bond-Inv A	4.7	1.4	0.90a
C	A	Calvert Income-A	8.3	4.4	1.21
B	B	Dodge & Cox Income Fund	7.7	3.4	0.45
F	A+	Eaton Vance Prime Rate Reserves	4.0	NA	1.32
F	A	Federated Ultrashort Bond-IS	3.5	0.7	0.80a
C	A	Fidelity Adv Strategic Income-T	8.3	NA	1.11
F	A+	Fidelity Asset Manager–Income	4.5	NA	0.61
C	B	Fidelity Ginnie Mae	6.4	2.9	0.57
A	D	Fidelity Government Income	6.7	4.5	0.65
C	C	Fidelity Intermediate Bond	6.9	3.6	0.61
B	C	Fidelity Investment Grade Bond	7.1	4.4	0.62
C	B	Fidelity Mortgage Securities	6.9	NA	0.60
D	A	Fidelity Short-Term Bond	5.6	1.7	0.56
B	C	Fidelity Spartan Invest Grade Bond	7.3	NA	0.50
C	A	Fidelity Strategic Income	8.4	NA	0.80
B	D	First American Core Bond-A	6.2	4.3	0.95a
C	C	First American Intermed Term Bond-A	6.1	3.5	0.75a
D	A+	FPA New Income	7.1	1.0	0.61
C	B	Franklin US Government Secs-A	6.3	2.5	0.71
F	A	Goldman Sachs Ultra-Sh Duration Govt-A	3.9	0.6	0.86
C	B	Hancock Strategic Income-A	6.0	3.8	0.95
B	C	Harbor Bond Fund-Inst	7.7	4.7	0.57a
A	B	Loomis Sayles Bond-Ret	9.5	6.6	1.00
B	D	Merrill Bond–Core Bond-A	6.2	NA	0.85
C	B	Merrill US Government Mortgage-A	6.2	2.4	0.95
A	D	MFS Bond Fund-A	7.1	5.2	0.93a
B	D	MS US Government Securities-A	6.1	3.9	0.76
B	D	Nations Bond-Inv A	6.2	4.2	0.92
A	D	One Group Bond Fund-A	7.1	3.8	0.85

PERFORMANCE UP	PERFORMANCE DOWN	FUND	5-YEAR ANNUALIZED TOTAL RETURN	WEIGHTED AVERAGE DURATION (YEARS)	E
B	C	One Group Income Bond-A	6.4%	4.3	$
C	C	One Group Intermediate Bond-A	6.5	3.4	
D	A	One Group Short-Term Bond-A	5.0	1.6	
D	A	One Group Ultra Short-Term Bond-A	4.4	0.7	
D	A	Oppenheimer Limited-Term Govt-A	4.7	1.3	
D	A	Oppenheimer Strategic Income-A	7.0	3.8	
D	A	Pimco Low Duration-A	5.3	1.7	
A+	D	Pimco Real Return Fund-A	9.9	6.8	
F	A	Pimco Short-Term-A	3.8	0.5	
A	C	Pimco Total Return-A	7.5	4.3	
B	C	T Rowe Price New Income	6.7	4.2	
D	A	T Rowe Price Short-Term Bond	5.5	1.5	
C	B	T Rowe Price Spectrum Income	6.9	3.8	
D	A	Putnam Diversified Income Trust-A	6.5	4.5	
B	C	Putnam Income Fund-A	6.1	4.5	
D	B	Putnam US Govt Income-A	5.8	3.7	
C	B	Scudder GNMA Fund-AARP	6.1	3.8	
D	A+	Scudder PreservationPlus Inc-A	5.3	1.1	
C	B	Scudder US Government Secs-A	6.0	3.9	
D	A	SB Adjustable Rate Inc-SB-A	4.0	0.8	
A	D	Strong Government Secs-Inv	6.8	4.8	
F	A+	Strong Ultra Short-Term Income-Inv	3.5	0.6	
A	D	USAA Income Fund	6.9	4.4	
C	B	Vanguard GNMA Fund-Inv	6.9	2.6	
A	D	Vanguard Intermediate Inv Grade-Inv[22]	7.7	4.7	
A+	D	Vanguard Intermediate Bond Index-Inv	7.9	6.0	
A+	D	Vanguard Intermediate Treasury-Inv	7.6	4.5	
D	A	Vanguard LifeStrategy Income	5.2	3.7	
A+	F	Vanguard Long-Term Inv Grade-Inv[23]	8.3	11.5	
A+	F	Vanguard Long-Term Treasury-Inv	8.3	9.9	
D	B	Vanguard Short-Term Bond Index-Inv	5.8	2.5	
D	B	Vanguard Short-Term Federal-Inv	5.8	2.0	
D	A	Vanguard Short-Term Inv Grade-Inv	5.7	2.0	
D	B	Vanguard Short-Term Treasury-Inv	5.7	2.0	
B	C	Vanguard Total Bond Market Index-Inv	6.8	4.3	
B	D	VanKampen Government Secs-A	6.2	3.9	
F	A+	VanKampen Senior Loan-B[24]	3.4	NA	
D	B	VanKampen US Mortgage-A[25]	6.1	2.8	

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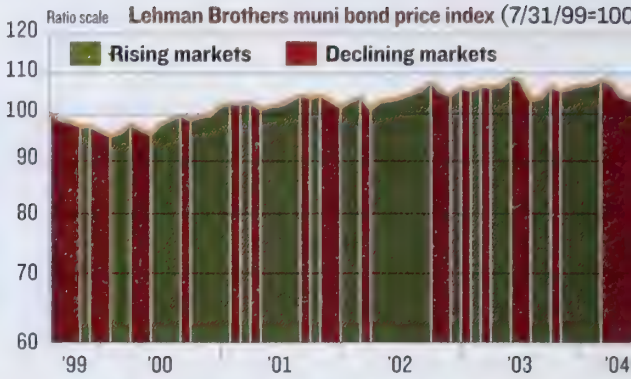
Fund Survey

Muni Bonds

Municipal bond funds are almost completely free of federal tax and also, in varying degrees, free of state tax. Grades are largely a function of whether they buy short-term or long-term bonds.



PERFORMANCE UP	PERFORMANCE DOWN	FUND	5-YEAR ANNUALIZED TOTAL RETURN	WEIGHTED AVERAGE DURATION (YEARS)	ANNUAL EXPENSES PER $100
C	C	AllianceBernstein Muni Income–Calif-A	4.6%	8.3	$0.77a
D	A	American Funds Amer High-Inc Muni Bond-A	5.0	4.6	0.77
D	A	American Funds Ltd Term T-E Bond of Am-A	4.9	4.4	0.66
C	B	American Funds Tax-Ex Bond of Amer-A	5.5	4.9	0.61
C	C	AXP High Yield Tax-Exempt-A	4.8	6.8	0.79
D	A	Bernstein Diversified Muni	4.9	3.9	0.63[11]
D	A	Bernstein New York Muni	4.8	3.9	0.65[11]
F	A+	Calvert Tax-Free Reserves–Ltd-A	3.0	0.7	0.57
A+	F	Columbia Tax-Exempt-A	5.2	8.6	0.94
A	D	Dreyfus California Tax Ex Bond	5.7	5.9	0.70
D	B	Dreyfus Intermed Muni Bond	4.4	4.7	0.74a
B	D	Dreyfus Municipal Bond	4.4	5.4	0.72
C	C	Dreyfus NY Tax Exempt Bond	5.1	5.8	0.71a
A+	F	Eaton Vance National Munis-A	6.1	8.1	0.78
B	D	Evergreen Municipal Bond-A	4.8	5.7	0.88
C	B	Evergreen Pennsylvania Muni-A	5.0	4.6	0.70
B	B	Fidelity Spartan Calif Muni Income	5.8	7.4	0.48
C	A	Fidelity Spartan Intermed Muni Income	5.8	5.5	0.43
B	C	Fidelity Spartan Mass Muni Income	6.0	7.0	0.47
A	C	Fidelity Spartan Municipal Income	6.4	7.4	0.47
A	C	Fidelity Spartan NY Muni Income	6.3	7.3	0.49a
D	A	Fidelity Spartan Short-Intermed Muni	4.5	2.9	0.49
C	C	Franklin Arizona T-F Income-A	5.0	5.7	0.63
C	B	Franklin Calif Insured T-F Income-A	5.4	5.4	0.60
C	B	Franklin California T-F Income-A	5.2	6.4	0.58
C	B	Franklin Federal T-F Income-A	5.2	5.2	0.61
B	C	Franklin Florida T-F Income-A	5.6	5.5	0.62
D	A	Franklin High Yield T-F Income-A	4.6	6.0	0.62
B	C	Franklin Insured T-F Income-A	5.5	5.2	0.63
C	B	Franklin Mich Ins T-F Income-A	5.5	4.9	0.64
B	C	Franklin NJ Tax-Free Income-A	5.4	5.3	0.65
D	A	Franklin NY Tax-Free Income-A	5.4	4.7	0.60a
C	B	Franklin Ohio Ins T-F Income-A	5.3	5.2	0.65
D	A	Limited Term New York Muni-A	4.6	4.1	0.76
A	D	Merrill Muni Bond–Insured-A	5.5	NA	0.71
B	B	Merrill Muni Bond–National-A	5.8	NA	0.84
A	D	MFS Municipal Bond-A	5.8	7.5	0.58
D	A	MFS Municipal High Income-A	4.9	7.5	0.79a

PERFORMANCE UP	PERFORMANCE DOWN	FUND	5-YEAR ANNUALIZED TOTAL RETURN	WEIGHTED AVERAGE DURATION (YEARS)
B	C	MS Tax-Exempt Securities-A	5.5%	7.6
D	B	Nations Intermediate Muni Bond-Inv A	4.6	4.5
F	A+	Nations Short-Term Muni Income-Inv A	3.6	2.0
C	C	Nuveen Insured Muni Bond-A	5.2	5.8
D	B	Nuveen Intermed Duration Muni Bond-A	4.7	5.3
D	B	One Group Municipal Income-A	4.3	5.0
A+	D	Oppenheimer Rochester National Muni-A	6.5	10.4
B	C	T Rowe Price Maryland T-F Bond	5.7	5.4
D	B	T Rowe Price T-F High Yield	4.8	6.0
B	C	T Rowe Price T-F Income	5.7	5.6
B	C	Putnam Calif Tax Exempt Inc-A	5.2	6.7
B	C	Putnam NY Tax Exempt Inc-A	5.5	5.7
C	C	Putnam Tax Exempt Income-A	5.0	5.6
D	B	Putnam Tax-Free High Yield-A	3.4	5.8
B	D	Rochester Fund Municipals-A	5.4	8.0
A	D	Scudder California Tax-Free Fund-A	5.5	6.6
A	D	Scudder Managed Muni Bond-A	5.7	5.5
C	C	SB Managed Municipals-A	5.4	5.9
F	A+	Strong Ultra Short-Term Muni Income-Inv	2.7	0.6
D	A	Thornburg Limited Term National-A	4.5	3.3
B	C	Thrivent Muni Bond-A	5.6	NA
D	A	USAA Tax-Ex Intermediate-Term	5.4	4.6
A	D	USAA Tax-Exempt Long-Term	5.9	5.6
F	A+	USAA Tax-Exempt Short-Term	4.0	1.8
C	B	Vanguard Calif Intermediate T-E-Inv	5.6	4.8
A	D	Vanguard Calif Long-Term T-E-Inv	6.1	6.0
A+	D	Vanguard Florida Long-Term T-E-Inv	6.5	6.2
C	B	Vanguard High-Yield Tax-Exempt-Inv	5.5	5.7
A+	D	Vanguard Insured Long-Term Tax-Ex-Inv	6.2	6.2
D	B	Vanguard Intermediate Tax-Ex-Inv	5.3	4.8
D	A+	Vanguard Limited Term Tax-Ex-Inv	4.3	2.5
A+	F	Vanguard Long-Term Tax-Ex-Inv	6.1	6.4
A	D	Vanguard NJ Long-Term Tax-Ex-Inv	6.0	5.9
A	D	Vanguard NY Long-Term Tax-Ex-Inv	6.2	5.9
A	C	Vanguard Penn Long-Term Tax-Ex-Inv	6.2	5.4
F	A+	Vanguard Short-Term Tax-Exempt-Inv	3.3	1.2
D	A	VanKampen High Yield Muni-A	4.5	8.2
A	D	VanKampen Insured Tax-Free Income-A	5.6	6.3

FOOTNOTES PAGE 282

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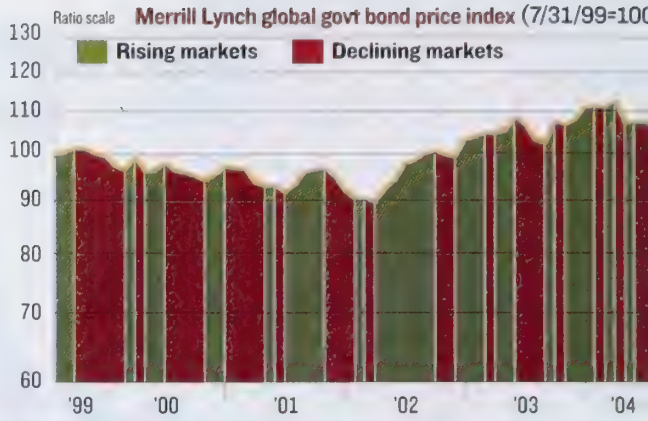
Fund Survey

Global Bond

These funds, blending foreign and U.S. debt, aim to diversify away some of the risk in a falling dollar and rising interest rates.



PERFORMANCE UP	DOWN	FUND/800 PHONE	5-YEAR ANNUALIZED TOTAL RETURN	YIELD	ASSETS 7/31/04 ($MIL)	WEIGHTED AVERAGE MATURITY (YEARS)	WEIGHTED AVERAGE DURATION (YEARS)	MAXIMUM SALES CHARGE	ANN EXPE
B	B	AllianceBernstein Americas Govt Inc-A/227-4618	10.1%	7.6%	$1,674	14.0	8.8	4.25%	$1.
C	A+	AllianceBernstein Emerging Mkt Debt-A/227-4618	18.5	8.0	278	14.2	6.6	4.25	1.
D	B	AllianceBernstein Global Strategic Inc-A/227-4618	5.0	6.2	135	11.7	6.9	4.25	1.
D	C	AllianceBernstein Multi-Mkt Strategy-A/227-4618	3.8	4.0	213	3.6	3.2	4.25	1.
A+	F	American Century Intl Bond-Inv/345-2021	6.5	6.2	651	NA	5.2	no load	0.
B	D	American Funds Capital World Bond-A/421-4120	7.0	4.3	1,509	6.1	4.6	3.75	1.
B	D	AXP Global Bond-A/297-5300	5.8	4.0	522	9.2	4.4	4.75	1.
C	C	BlackRock International Bond-Inv A/441-7762	7.4	3.5	372	6.1	4.5	5.00	1.
C	C	Credit Suisse Global Fixed Inc-A/927-2874	6.9	11.3	126	6.9	4.5	4.75	1.
B	D	Dryden Global Total Return-A/225-1852	4.4	13.0	189	7.9	5.6	4.50	1.
F	B	Eaton Vance Strategic Income-A/225-6265	6.1	8.2	428	2.6	2.5	4.75	1.
C	B	Evergreen Strategic Income-A/343-2898	7.4	5.7	409	11.2	4.5	4.75	1.
A	D	Federated International Bond-A/341-7400	4.9	6.5	133	8.1	5.6	4.50	0.
C	B	Federated Intl High Income-A/341-7400	11.9	9.0	139	9.1	6.3	4.50	1.
B	D	FFTW Worldwide/762-4848	6.2	9.6	166	NA	NA	no load	0.
C	A	Fidelity Adv Emerging Mkts Income-T/877-208-0098	15.5	7.1	156	NA	NA	3.50	1.
C	A	Fidelity New Markets Income/544-6666	16.2	6.0	831	NA	NA	no load	0.
D	D	Franklin Templeton Hard Currency-A/342-5236	3.6	7.0	193	NA	NA	2.25	1.
D	C	Goldman Sachs Global Income-A/526-7384	4.7	9.4	324	NA	5.5	4.50	1.
C	C	ISI North American Govt Bond-A/955-7175	6.6	7.3	225	8.1	5.2	3.00	1.
A	D	Loomis Sayles Global Bond-Ret/633-3330	8.2	4.0	616	6.5	4.9	no load	1.
D	B	Merrill World Income-A/637-3863	8.7	6.6	145	NA	NA	4.00	1.
D	C	MFS Strategic Income-A/225-2606	5.4	6.0	358	9.8	4.3	4.75	0.
F	C	Oppenheimer International Bond-A/525-7048	11.8	5.6	1,389	4.6	3.1	4.75	1.
E	C	Payden Global Fixed Income-R/572-9336	5.4	4.5	186	7.6	5.2	no load	0.
D	B	Payden Global Short Bond-R/572-9336	5.5	3.1	156	3.0	2.0	no load	0.
B	A+	Pimco Emerging Markets Bond-A/426-0107	19.9	4.5	1,417	10.5	5.3	4.50	1.
F	A	T Rowe Price Emerging Mkts Bond/225-5132	15.4	6.2	233	11.0	6.0	no load r	1.
A	D	T Rowe Price International Bond/225-5132	5.6	2.6	1,397	6.4	4.6	no load	0.
B	C	Putnam Global Income-A/662-0019	6.2	9.4	163	6.3	4.8	4.50	1.
D	B	Salomon Brothers Strategic Bond-A/725-6666	7.3	4.3	187	7.5	4.6	4.50	1.
C	A	Scudder Emerging Markets Income-A/621-1048	15.3	5.4	166	11.3	6.0	4.50	1.
C	C	Scudder Global Bond-A/621-1048	5.5	4.3	180	7.4	5.2	4.50	1.
B	B	Standish Mellon Intl Fixed-Inc-I/221-4795	5.4	none	374	5.5	3.8	no load	0.
C	C	Templeton Global Bond-A/342-5236	9.0	6.3	797	NA	4.8	4.25	1.
D	D	UBS Pace Global Fixed Inc-A/647-1568	4.7	8.2	384	9.7	5.0	4.50	1.

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erformance through July 31 •Fund rated for three years only (two for junk bond funds), maximum allowable grade A. ◆Fund not in operation or did not meet asset minimum for full period. a. Net of sorption of expenses by fund sponsor. b. Includes back-end load that reverts to distributor. r: Distributor may impose purchase or redemption fee whose proceeds revert to the fund. NA: Not availab lan. Available only through monthly contractual plan. Tax efficiency based on past performance: ranking from 1 (best) to 5 (worst). [2]Formerly AXP Utilities Fund-A. [3]Formerly Delaware Decatur Equity Income-A. [4]Formerly Bear Stearns S&P Stars Fund-A. [5]Formerly Merrill Lynch Small Cap Value-A. [6]Formerly IDEX Janus Growth Fund-A. [7]Formerly AAL Capital Growth Fund-A. [8]Formerly AAL Mid C Stock Fund-A. [9]May impose annual $10 account maintenance fee. [10]Fund imposes sales and redemption charges whose proceeds revert to other shareholders. [11]May impose annual $100 account maintenance fee. [12]Reflects performance of AIM Global Consumer Products prior to August 2001 merger. Formerly AIM Global Trends-A. [13]Formerly AXP Global Equity Fund-A. [14]Formerly TA IDEX Janu Global Fund-A. [15]Account closing fee of $10. [16]Formerly Vanguard Precious Metals. [17]Formerly Oppenheimer Multiple Strategies-A. [18]Formerly Oppenheimer Quest Balanced Value-A. [19]Formerly UBS Tactical Allocation-A. [20]Formerly John Hancock High Yield Bond-A. [21]Formerly Lutheran Brotherhood High Yield-A. [22]Formerly Vanguard Intermediate-Term Corporate-Inv. [23]Formerly Vanguard Long-T Corporate-Inv. [24]Technically a closed-end fund. [25]Formerly VanKampen US Government-A. *Sources: Forbes; Lipper; Morningstar.*

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Where's the Beef?

All the attention in the burger wars is on the rebound at McDonald's and in retreat at Burger King (now owned by private investors). Few appreciate that **WENDY'S INTERNATIONAL (34, WEN)** is close to supplanting Burger King as the second-largest burger chain in U.S. sales. Even with the McDonald's makeover, Wendy's still beats the Golden Arches in food quality and speed-of-service scores. Like Mickey D's, Wendy's has captured weight-conscious consumers' appetites with salads and chicken, while not neglecting its essential burger clientele. Latest burger innovation, now being heavily advertised: the Bacon Mushroom Melt.

Sure, cholesterol fear and rising food costs have hobbled all the burger chains. Beef and chicken prices could trim 6 cents to 8 cents off Wendy's full-year 2004 consensus earnings per share of $2.35, which would still clock a 15% rise. Wendy's same-store-sales increase has rebounded this year to 4% from –2% in 2003. It has a robust affiliate: Canadian sandwich-and-doughnut chain Tim Hortons. Highly regarded William Moreton, Panera Bread's chief financial officer, has come aboard to boost Wendy's so-so Mexican chain, Baja Fresh.

In 2004's first half Wendy's had respectable 18% increases in both earnings ($124 million) and revenue ($1.7 billion). Morningstar restaurant analyst Carl Sibilski sees solid growth ahead, with much of that coming from Hortons and Baja. At a trailing price/earnings multiple of 16, Wendy's is tiny bit cheaper than kingpin McDonald's (17). —*Mark Tatge*

Flush Times

Maker of everything from toilets to air conditioners to brakes, **AMERICAN STANDARD (39, ASD)** has shown how to make a collection of mature industries hum. During the worst of the recession, it continued to increase profits and sales. In 2004's first half, earnings rose 24% to $244 million on revenues up 13% to $4.8 billion.

Still better times seem in the offing. The company's biggest line, air-conditioning (58% of revenues), should benefit because many commercial buildings are due to replace old systems. An undaunted housing sector is stoking demand for its plumbing and other household fixtures. And the division making brakes for trucks and buses has huge orders from North America and China, says Credit Suisse First Boston analyst Nicole Parent. The stock's trailing P/E: 18, just below the S&P 500's 20. —*Christopher Steiner*

Power Play

Another industrial grab bag with a bright future is **EMERSON ELECTRIC (62, EMR)**, notes Goldman Sachs analyst Deane Dray. It is in the midst of a comeback, aiming for a return this year to the epic 2000 sales level of $15.3 billion. A push into overseas sales was deft, and it has outsourced with a vengeance to low-cost places like China (FORBES, *July 26*).

Emerson's best suit is in automation and industrial controls, which make machines smarter and save operators money. Emerson recently paid a thrifty $406 million (one times sales) to buy the outside plant and power business of Marconi, a leader in telecom power systems. For 2004's first two quarters, earnings moved up 28% to $659 million and revenue 12% to $7.9 billion. The 23 P/E is a tad rich, but deserved. —*M.T.*

Bad Buzz

DUKE ENERGY (22, DUK) has done what Wall Street loves: Beat its expectations. The energy concern (interstate pipelines, electricity and natural gas for the Carolinas) boasted a 15% jump in net income to $743 million for the first half. Never mind that revenue dipped 2% to $11 billion. Shares are up 29% since last summer. At 17 times trailing earnings (peers average 13), is Duke worth it?

No, says Timothy M. Winter, analyst at AG Edwards. Gains from unusually high temperatures and from real estate sales make up a lot of the earnings boost, he says. Duke puts great store in selling power outside its area, but its low "spark spread" (the difference between the price of electricity and the cost of the gas used to generate it) makes Winter wonder how lucrative that will be. We say short the stock, cover at $17. —*Susan Kitchens*

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Some Stocks Are Cheap

LIKE AN AEROBATIC PLANE SPINNING AND DIVING WITH its altimeter and horizon gauges revolving wildly, the economy has economic indicators spewing out quickly changing and often contradictory information. The stock market has reacted badly. As of late August the S&P 500 is down 8% in price terms since the index's 52-week high in February.

Investor confusion is at the root of the market's problem. Only four months back investors were frightened by the prospects of an overheated economy and accelerating inflation. The stock market dropped with each new indicator reaffirming a powerful economic expansion that would force the Federal Reserve to hike rates.

Equities slowed first from fear of an overheated economy, then from fear of a slowdown. But you can safely ignore the hand-wringing.

But lately it appears that the economic expansion is faltering, thus curbing demand for credit. The July employment report, for instance, showed a paltry increase of 32,000 nonfarm jobs from June. So the market has fallen some more.

The big unknown is whether costly oil will start an inflationary spiral. The bond market doesn't think so, apparently believing that slower growth will cool down or stop any inflation. The prices of long-term bonds have recovered sharply from their recent bottoms, and their yields are again approaching 40-year lows.

This view ignores common sense. The rising price of oil will force all kinds of manufacturers to raise prices, just as they did after the 1973 and 1979 oil shocks, to cover higher raw material and shipping costs. The effects will inevitably be seen in the Consumer Price Index, and hence in higher interest rates and lower bond prices.

Amid all this perplexing flux, what should you do? The best guide here is the Fed, which is forecasting more inflation and continued economic expansion. Despite the weak job report, the Fed has hiked interest rates twice, with more increases likely. Chairman Alan Greenspan feels a regimen of moderate rate increases won't endanger economic growth. The slowdown in recent months, he argues persuasively, is a temporary pause.

If the stock market makes you uneasy and you must be in fixed-income investments, at least keep your maturities very short. Long bonds are not the place to be while prices are rising. We witnessed a bond bear market in the spring, when long Treasurys dropped as much as 12.4% in price in the space of less than two months beginning in mid-March. Another collapse is all but certain. Go short, even if that means accepting a negative return after inflation and taxes. (A five-year Treasury yields 3.5%. Subtract 1.2 percentage points for taxes at the top rate (35%) and 3 points for inflation, and you have a real aftertax return of –0.7%.)

Sure, the stock market is down lately, but look where most of the suffering is concentrated—in the tech, biotech and (Google notwithstanding) Internet sectors. Last year's tech run-up was only a sharp rally in a continuing bear market that started after the 1997-2000 bubble.

The outlook for the rest of the market is much more positive. Stocks are trading down near historical price/earnings ratios for the first time in almost a decade. Value stocks as a group are approaching, or are in, the bargain range.

Don't let some inflation worry you. Inflation may be harmful, but not to stocks. As I wrote in my June 7 column, normally after a shaky start stocks provide positive returns through most inflationary periods. In light of all this, here are several stocks to consider.

Altria (49, MO), parent of Philip Morris, has been a so-so performer year-to-date as the market awaits big tobacco rulings in Florida, Illinois and Washington, D.C. The odds are high, however, that there will be settlements favorable to the company. If this occurs, management intends to increase shareholder value by spinning off its 85% holding in Kraft, its food unit, and possibly other assets to shareholders. Altria's breakup value is plausibly between $80 and $85 a share, a tip-off to value even if no one is planning to take this giant private. The stock is cheap, trading at a P/E of 10 and yielding 6.0%.

Carolina Group (25, CG) is a tracking stock for Loews Corp.'s Lorillard Tobacco division. Its primary strength is the Newport menthol brand. The stock yield is a healthy 7.3% on a fairly secure dividend. The stock is suffering from the same free-floating fear of litigation that afflicts Altria.

Medco Health Solutions (31, MHS), a pharmacy benefit manager, has been knocked down sharply with the health care group in recent months. Medco should show an earnings growth rate approaching 15% over the next few years. The stock trades at a P/E of 18. F

David Dreman is chairman of Dreman Value Management of Jersey City, N.J. His latest book is *Contrarian Investment Strategies: The Next Generation*. Visit his home page at **www.forbes.com/dreman**.

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Seventeen of the 70 securities held by my firm have been in our portfolios for at least a decade. Over time many of them have paid off. This steadfastness is noteworthy in an industry where the average annual turnover is in the neighborhood of 100%, which corresponds to a holding period of only one year.

Professional money managers often hold a stock for only a year or so. You can do better. Find stocks worth holding for a decade.

The following stock picks are some of my favorite long-term holdings. These companies, which have endured their rough patches, remain attractively valued, offering plenty of upside for patient investors.

Founded in 1914, **Brady Corp. (45, BRC)** has established itself as the premier manufacturer of industrial tags, signs and specialty materials like tape that can withstand high temperatures. Its factory-floor exit signs, for instance, are made to keep glowing through the smoke and gas from an explosion. Their products command premium prices because some can keep functioning amid intense heat (over 1,000 degrees Fahrenheit) and cold (as when dunked in liquid nitrogen).

Another Brady strong point is the diversity of its clientele—no one client represents more than 6% of sales—thus limiting the damage from customer churn. The company sells 50,000 standard and customized items to 300,000 customers in industries including electronics, telecom, manufacturing, construction and education. Brady supplies specialized markets with made-to-order products in small quantities, earning high margins with capital spending budgets fed with an eyedropper. It can hold its own in a globalized marketplace. Half the sales today come from outside North America; their long-term goal is two-thirds.

Only lately has Brady recovered from the recession: Sales and earnings, which tumbled after 2000, have edged up in the first three quarters of this fiscal year. The once-shaky stock has gained $10 from a year ago, to change hands at 29 times trailing 12 months earnings. Still, by my estimate of its value to a potential acquirer, Brady is underpriced.

General Binding (11, GBND) is best known for making machines that bind and laminate paper into folders and booklets. Customers are small and midsize businesses. Servicing and supplying these machines with parts, paper, plastic sheets and the like is a highly profitable operation, akin to the annuity Hewlett-Packard enjoys on its ink cartridges. General Binding's machines do not accommodate competitors' supplies.

This is a recovery story, as well. In 2001 General Binding dipped into the red. Only in this year's first half has it eked out a small profit, $3 million. The stock is trading where it was a year ago and sports a low trailing multiple of 10.6. That said, General Binding trades at a 41% discount to my private market value estimate.

Why my optimism? A recent cost-savings campaign is on track to trim $10 million, or 4%, out of annual expenditures for selling and administration. Debt refinancing has successfully cut three percentage points from its current bank rate. The company is looking to reduce debt more deeply. The main point, though, is that a better economy will likely lift this company's sales.

The toy industry hasn't been a lot of fun of late. Stock in **Hasbro (18, HAS)** has gone nowhere in the past year. The second-largest toymaker (after Mattel) has had a spotty profit history, with losses in 2000. There has been a rebound in 2003 and the first half of this year, although revenues have yet to bounce back significantly. They should.

The era of underperformance is drawing to a close. Hasbro has embarked on a new strategy: reinvigorating long-neglected brands (GI Joe, Mr. Potato Head, Monopoly), bidding for new licenses more conservatively, consolidating operations and paying down $1 billion in debt left over from a prolonged acquisition spree.

Signs exist that the new approach is working. Thanks to its heartier finances, Hasbro's revenue per share grew at a 4.2% annual clip from 2001 to 2003, up from 2.6% during the prior ten-year period. Skeptics worry that the implosion of Toys "R" Us will hurt Hasbro. Nonsense. Wal-Mart's newfound leadership in toy sales should offset that. At 18 times trailing earnings, Hasbro trades at a 28% discount to my private market value estimate. F

John W. Rogers Jr. is chairman and chief executive officer of Chicago-based Ariel Capital Management, LLC., the adviser to the Ariel Mutual Funds. Visit his home page at **www.forbes.com/rogers.**

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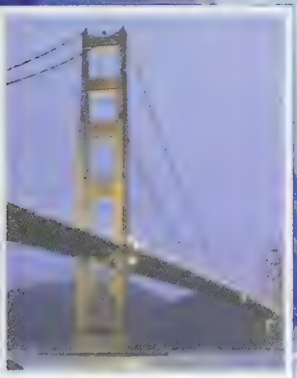

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Wall Street in Dreamland

FINANCIAL MARKETS AND THE U.S. ECONOMY PARTED company in the late 1990s as Wall Street lost touch with economic reality. That great disconnect still exists. By the late 1990s the post-1982 bull market's length and intensity put fear to flight, leaving nothing but intense greed. Speculation rivaled that of the 1920s.

So powerful was that 18-year bull market that even the following three-year bear market, which cut the Nasdaq index by 78%, did not put the financial world back in touch with economic reality. Massive monetary ease and huge fiscal stimuli actively promoted a continued separation. The nosedive in interest rates encouraged housing and cash-out mortgage refinancing. Tax cuts and leaps in defense and homeland security spending pumped big money into the economy.

The financial world remains, alas, dangerously divorced from economic reality. The speculative fever of the 1990s persists to this day. Watch out.

Result: Financial speculation survived largely intact but shifted from stocks to residential real estate and hedge funds. Those private partnerships, along with banks, brokers and other pools of capital, took advantage of cheap short-term money to invest in Treasurys, junk bonds, convertibles, emerging market securities, currencies and commodities.

Sure, like most services, the financial sector grows faster than the overall economy. As U.S. business expands, financial services become more widespread, more complex and a bigger share of economic activity. Still, many measures of financial services remain far afield from consistent post-WWII trends; correcting the huge 1990s speculations should have pulled them below trend, at least temporarily.

Compare the Dow Jones Wilshire 5000 Market Capitalization Index, which contains almost all U.S. stocks, to the gross domestic product. The ratio (if you multiply the index by a billion) is now well below its 2000 peak, but at 96% it remains substantially above the 1971-96 norm, which is near 60%. Similarly, mutual fund assets in relation to GDP now stand at 64%, up from the 54% dictated by the 1984-96 trend line. (Good mutual fund data only go back 20 years.)

Stocks in the financial services sector, of course, benefited from the late-1990s surge, and the market capitalization of the financial stocks in the S&P 500 index leaped to 18% of the total. Yet after a brief setback when the market swooned, those companies were recharged by residential real

estate and spread-lending activity. So their market caps now sum to 20% of the S&P 500 total. Meanwhile, the notional value of over-the-counter derivatives such as currency and interest rate swaps climbed from $90 trillion at the end of 1999 to $197 trillion at the end of 2003.

Pay in the financial sector did even better. In relation to average nonfarm wages and salaries, it continued to rise during the bear market and then jumped to the current 119%. Of the Forbes 400, the richest Americans, 77 made their money in finance or real estate.

Almost no one wants the financial sphere to reunite with the economic world, since the coming down to earth of speculative prices would be a financial shock that would cause a lot of real damage. The speculators don't want reality to intrude. Nor the brokers, bankers, hedge fund managers, money managers, venture capitalists, financial TV executives, consultants and financial research purveyors. Not even the Bush Administration or the Federal Reserve.

The Federal Reserve has broadcast its intention to raise the federal funds rate it controls. But that is not a plan to squeeze speculative excess out of the financial markets. Indeed, futures markets have already anticipated a further, modest credit tightening. Certainly Alan Greenspan cannot aim for sharply higher rates; that would be curtains for spread lenders and house prices. A serious financial crisis could turn my forecast of the good deflation of excess supply into the bad deflation of deficient demand as incomes are shattered.

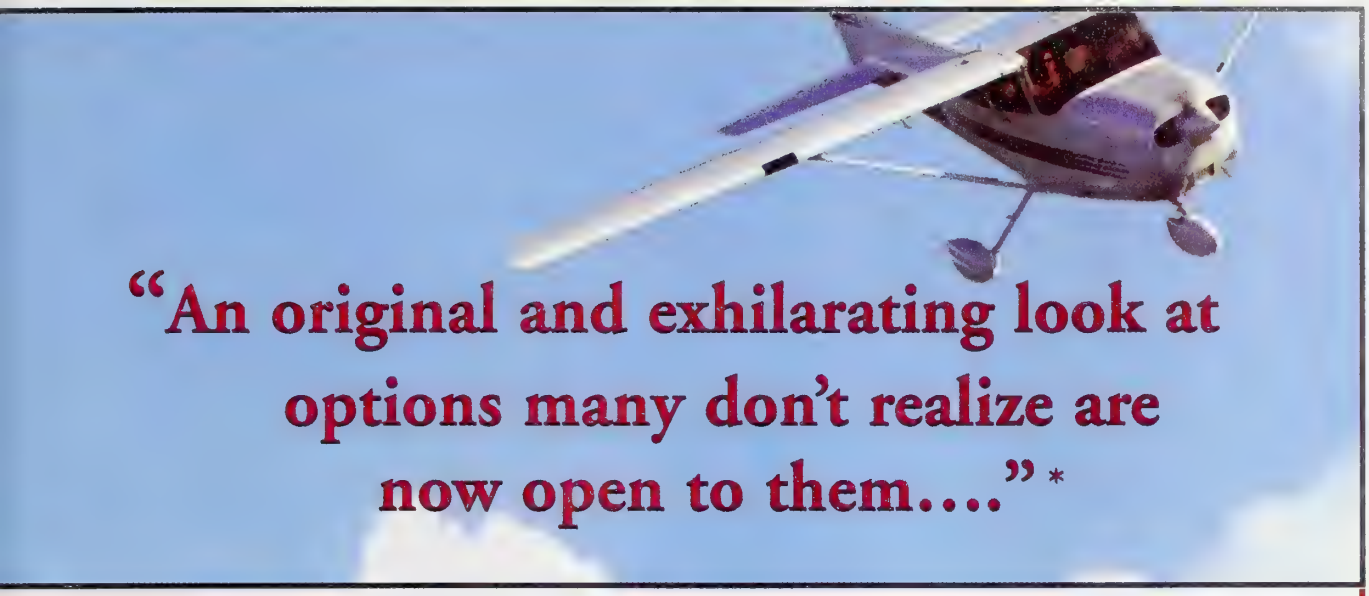
But suppose the Fed succeeds in raising interest rates slowly enough that speculators can adapt without big failures. Most would probably figure that Washington had again raised the safety net so they could climb to an even higher perch. They would no doubt take even bigger speculative positions. The gap would widen and the prospects of closing it painlessly would fall. The Fed thus would have fostered the dangerous illusion that Wall Street can live permanently divorced from reality.

History says the two worlds will rejoin sooner or later. The great disconnect of the last decade between the speculative financial and the real economic worlds will probably persist, indeed expand, until a lot of people not only lose a lot of money but also give up all hope of being bailed out.

Don't be one of them. Don't buy a bigger house than you need, and don't buy stocks on margin. Buy Treasurys. F

Forbes

A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. Visit his home page at **www.forbes.com/shilling**.



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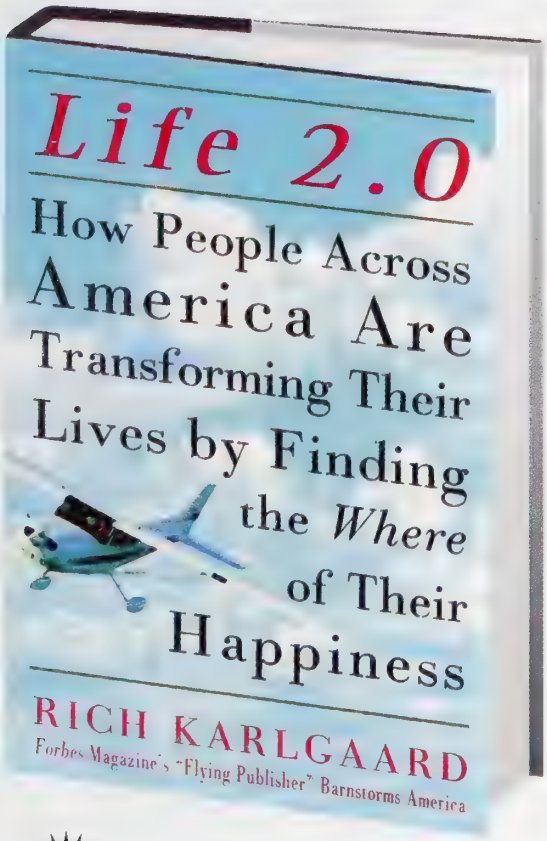

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Christy Jones
and an egg-freezing tank.

The Big Chill

Antifreeze potions are allowing women to preserve their eggs with greater success than ever before. BY ERIKA BROWN

SINCE SHE WAS A LITTLE GIRL, GRACE DRAKE HAD HER LIFE ALL planned out. She would get married, buy a house with a white picket fence, have children and drive a Volvo. But first she would go to college, get her master's and travel the world. The plan started out okay; she married in her late 20s, but got divorced in less than a year. Today, at 35, she owns a home in Austin, Tex., is studying for her M.B.A. and just returned from a trip to Brazil and Uruguay. She misses very much a vital piece of the equation: a family. "You wake up and realize you're 35, you're alone and you're getting older," says Drake. "I look at every baby I see now and think, 'What if I can't have a child?' The fear of the unknown is wicked."

There are 5 million single, childless women in their 30s in the U.S., three times as many as in their mothers' generation. Though workplace equality is getting better, women will always suffer a lack of parity in fertility. A healthy man can produce sperm throughout his entire life, as many as 100 million per day, and if he freezes them, father a child at any age. A baby girl is born with 6 million eggs. By the time she hits puberty she is down to 500,000; she loses 30 each menstrual cycle. By age 27, her fertility begins to decline. So it is that one out of seven women now childless and between the ages of 30 and 34 will never bear a child. By age 40, it's three out of five.

If sperm can be frozen, why not eggs? Until recently most technologies have yielded disappointing results: only a 1% to 3% successful birth rate. But new advances in the science of egg freezing may offer a way for women to regain control of their reproductive life spans or circumvent the sterility brought on by cancer treatment or ovarian surgery. Extend Fertility, a Boston company launched this June, is the first to take freezing out of experimental labs and into clinics. It has brought to the U.S. from Europe a method for slowly freezing eggs so that they're far more apt to be fertile when thawed.

Earlier this month Grace Drake became one of Extend's first customers. She began injecting herself with hormones that spurred her ovaries to produce multiple mature eggs at once. Ten days later Dr. Lisa J. Hansard at the Texas Fertility Center extracted 13 eggs and froze 10.

Christina Jones, an entrepreneur who cofounded her first company, Trilogy Software, at age 19, was inspired to start Extend after a dinner conversation in 2002 with her mother and three sisters. Her mom had just seen a chilling episode of *Oprah* about childless working women. Jones' mom joked that Christy and her sisters should start freezing their eggs.

Jones took it to heart. At the time, she was 32, single and working on her M.B.A. at Harvard. She figured she'd graduate at 34, then spend a few years on her career before settling down. But by then her eggs might not be viable. She discovered how disappointing existing egg-freezing technologies were. Meanwhile, egg envy had become the topic of cocktail party conversation.

When she heard about the work of Dr. Raffaella Fabbri at the University of Bologna in Italy, Jones knew she was onto something big. In February 2001 Fabbri had published a report claiming pregnancy rates as high as 40% from once-frozen eggs. "I realized the science was at an inflection point," says Jones.

Fabbri made some key discoveries. Egg cells are mostly water. If they're frozen too quickly, ice crystals will destroy the eggs. Fabbri came up with a way to slowly freeze-dry eggs by dipping them in different dehydrating solutions at different temperatures. She found that by removing more water from the eggs, she could prevent what is essentially freezer burn. She used similar solutions in the thawing process. Normally, after a frozen egg is thawed, its shell becomes hardened and is impenetrable to sperm. So, instead of using natural insemination, Fabbri decided to use the newer procedure of injecting sperm directly into the egg. To date some 130 babies have been born worldwide using variations of Fabbri's recipe. In 2001 MediCult, a culture media manufacturer in Denmark, bought Fabbri's patent for the freezing and thawing solutions for an undisclosed sum.

While finishing her M.B.A., Jones first thought she would start a chain of Extend clinics. But costs were prohibitive. Better to start an outsourced service. Jones moved quickly upon graduating in June. She entered negotiations with MediCult for exclusive rights to distribute its solutions in the U.S. She also signed up California Cryobank in Los Angeles to store the eggs.

Extend manages the egg-freezing process from beginning to end. Its counselors educate women about their options, refer them to fertility doctors and eventually will also provide hormones to boost egg production. Extend also gives doctors Fabbri's freezing solution and elaborate instructions, then keeps track of the eggs, which are stored in liquid nitrogen tanks at California Cryobank's facilities. Extend charges $10,000 for the service, which it splits with the fertility clinic. The woman still has to spend $4,000 on hormone treatments and another $15,000 to $20,000 later on for each round of in vitro fertilizations with her eggs.

Jones has signed up clinics in Pasadena, Calif., Palo Alto, Calif., and Austin with letters of intent from clinics in Miami and New York City. Since launching three months ago Extend has signed up 25 people for the service and has fielded 200 inquiries. Not every-

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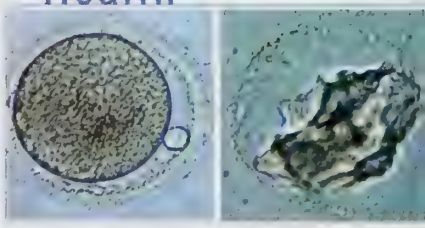

A woman's egg is mostly water. A new slow-freeze method removes the water first to avoid lethal ice crystals.

one will qualify. Women must be under the age of 40 and pass hormone tests that indicate sufficient ovarian reserves. Patients can finance the egg-freezing process with five-year personal loans (at a rate as low as 8.9%) from Capital One.

Some fertility doctors worry that the science hasn't caught up to the marketing hype. "It gives women a false sense of security that they can postpone their childbearing years into their 40s," says Dr. Zev Rosenwaks, director of the Center for Reproductive Medicine & Infertility at New York Weill Cornell Medical Center. "As a routine method for ensuring fertility, egg freezing is still premature."

Jeffrey Boldt, an embryologist at Community Hospital in Indianapolis, says he has been freezing eggs for five years without a corporate partner. He already has the equipment, a steady stream of patients and access to published reports from which he can mix the antifreeze solution on his own. Retorts Boldt, "We published a report last year where we did 42 thaw procedures on 37 patients. Twelve got pregnant, and 8 have already given birth. The proof is in the pudding." Jones argues that labs that operate without MediCult's prefab solution may not have as rigorous quality controls, and their solution batches may vary.

Jones is seeking out venture capitalists for growth capital, but she's already invested $500,000 of her own money to get Extend started. She can well afford it. The computer seller she had carved out of Trilogy Software and took public in 1999, PCorder.com, fizzled out, but she sold it back to Trilogy in 2000 for $30 million, netting maybe $2 million.

Jones is getting married in September. She says she and her husband will try starting a family the old-fashioned way, but Jones paid to freeze a batch of her eggs in May, anyway. "If we have trouble, at least I've got my eggs as a backup." F

The Seventh

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ONE HOT MORNING IN JULY I found myself in northwestern Spain, walking-staff in hand, waiting to enter the cathedral of Santiago de Compostela—endpoint of my journey. My companions and I were but the latest in a line of pilgrims stretching back to the ninth century A.D. Admittedly, we were a different demographic than Chaucer chatted up: Neither penitence nor devotion by themselves explained our presence. Nor were we all Christians.

As a famous old advertising slogan used to say, you don't have to be Jewish to love Levy's Real Jewish Rye. And you don't have to be Catholic to tread the *camino*—the path that runs 480 miles along the Pyrenees, from St. Jean Pied-de-Port on the French side to Santiago at the northwest tip of Spain. All you need is an unanswered question or two and a taste for the meditative rhythm of foot travel.

In the Middle Ages hundreds of thousands of pilgrims a year trod this route; by the 1980s only a few thousand. Then the trend reversed: In 2000 pilgrims topped 60,000. Last year almost 80,000.

Most of the people that I walked with were, like me, not formally religious. Yet though they had a hard time putting into words exactly what they believed, they all believed in something. Tramping the *camino* for six hours a day, they hoped, might help bring it into focus.

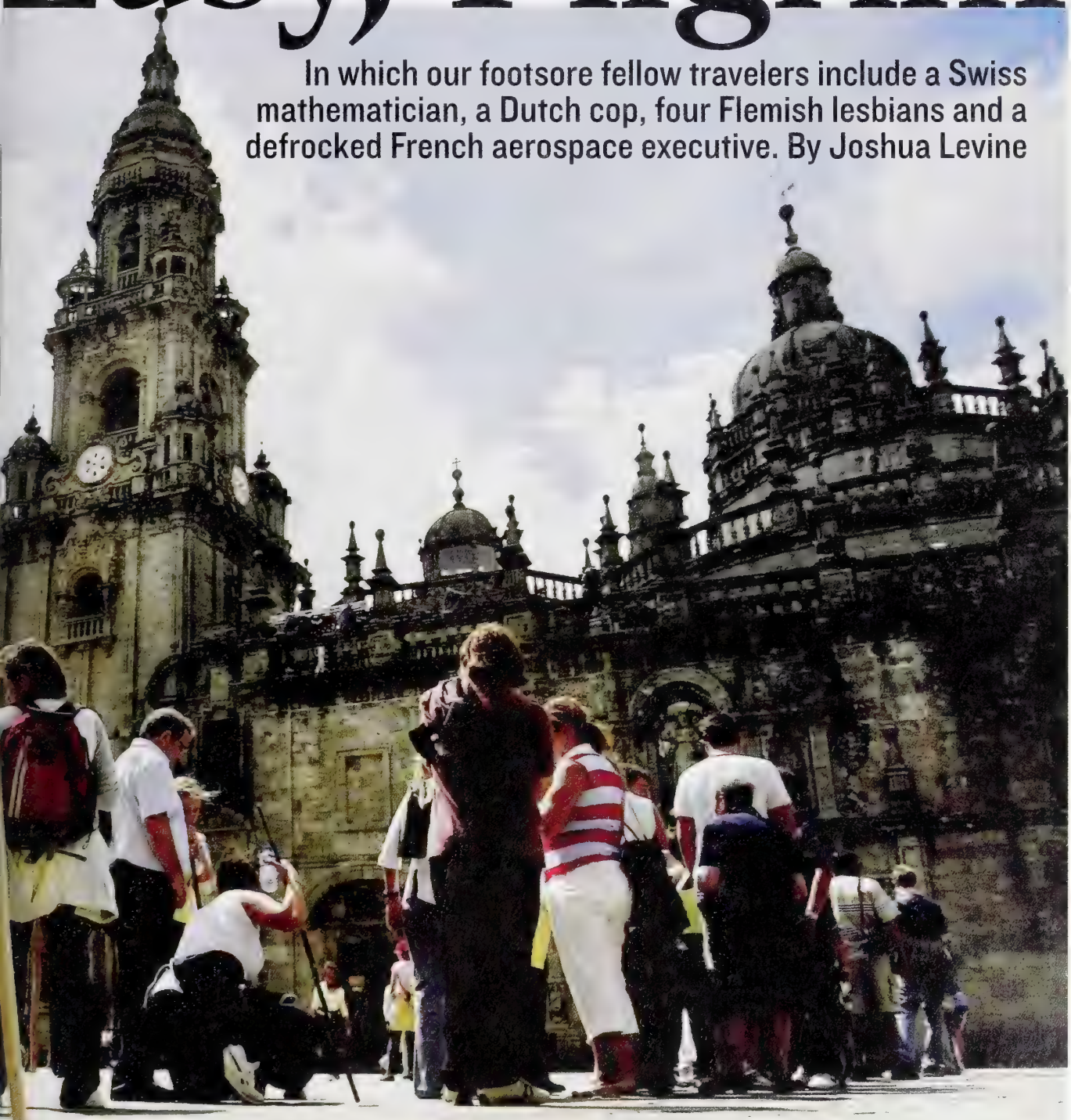
Irmgaard, the Swiss mathematics Ph.D., had learned that there were propositions proved to be unprovable; she wondered if the dimension that escaped her theorems might be found on the *camino*. Bert was a retired policeman from Amsterdam who had been waiting 12 years to walk the *camino* with his wife, Katharine—they had started from their front door. He was carrying a stone from his mother's grave to deposit on the *cruz de ferro*—the iron cross high on a mountain where pilgrims perform this ritual to discharge their lingering sadness.

François had just been pushed out of his job

MIGUEL VIDAL FORBES HAND LETTERING BY ELVIS SWIFT FOR FORBES

Easy, Pilgrim

In which our footsore fellow travelers include a Swiss mathematician, a Dutch cop, four Flemish lesbians and a defrocked French aerospace executive. By Joshua Levine



Where it all ends: the cathedral of Santiago de Compostela.

Snapshots from an inward journey. St. James *(far right)* was the original draw. Pilgrims still touch the column said to contain his bones *(middl*

running a division at EADS—the French company that makes Airbus; now he was looking, he said, for an identity that came from within instead of from without. He had started walking in Budapest, one of the easternmost points in the system of feeder roads that have funneled the faithful into Spain for centuries.

The first pilgrims hit the road shortly after A.D. 813, when bones believed to be those of the apostle James were discovered by a wandering shepherd in a place that was later renamed Santiago (Iago is Spanish for James, so Saint James is Santiago). In an age when holy relics were believed to hold wondrous powers, these bones were the most potent draw in Europe.

Not much is known about Saint James. After Christ's crucifixion, James was said to have spread the gospel in Spain. In A.D. 44 he returned to the Holy Land, only to be beheaded by Herod Agrippa. Spanish legend holds that his headless body was placed in an unmanned boat, which drifted unaided across the Mediterranean, through the Straits of Gibraltar and up the coast of Spain. When the boat beached in Galicia, James' disciples asked permission of Lupa, the local queen, to bury him. She agreed, provided the disciples accomplish several fearsome feats. So began a series of miracles.

The defining one occurred in A.D. 852 at the battle of Clavijo, where an apparition of Santiago mounted on a white charger led the Christian forces in a bloody rout of the Moors. Today in churches all along the *camino* you can see Santiago's carved likeness, armed to the teeth, foe under heel. After Clavijo there was just no keeping pilgrims home.

Walking the entire route from the French border takes at least a month, and most guidebooks break the journey into 30 one-day stages. If you don't have that much time, fly to the city of León, 220 miles east of Santiago, and start walking from there. No heresy in this. To receive your *compostelana*—the official certificate attesting you have performed your pilgrimage—you can start as close as 62 miles away.

You don't have to carry much. I walked with a light sleeping bag, a pack filled with a few shorts, shirts and socks, a sturdy pair of walking shoes and a pair of sandals. Walking conditions vary greatly. Sometimes the *camino* follows modern asphalt roads (hard on the feet), sometimes

What is he saying? WHO KNOWS? But we leave imbued.

cow paths. You quickly learn to spot the yellow arrows—painted on rocks, sidewalks, stone walls and wooden fences—that point the way.

A tent? You won't need one. Many villages and towns have pilgrim refuges. Some are free, run by the state. Others, run privately, charge at most a nominal amount—€7 a night, say. All offer bunk beds, thin mattresses, basic plumbing and just enough hot water for you to wash yourself and your clothes—if you're lucky. There are primitive kitchens, too. But I, like many pilgrims, chose not to cook, subsisting on *bocadillos con jamón y queso*, ham-and-cheese sandwiches.

You could stay in nice hotels—but you'd miss out: The refuge is where you get your pilgrim passport stamped. This document—which you obtain at the outset of your journey from a church, police station, or (in the U.S.) from the American Association of Friends of the Road to Santiago—establishes your bona fides. Without these you're considered just a tourist. The refuge, too, is where you mingle with your peers and thus feel yourself a part of a great communal undertaking.

There's an easy fellowship when pilgrims meet, but partings are easy, too. All you need to say is *"Buen camino"*—"May the road be good to you."

I will never forget my casual companions—the four Flemish lesbians; Chris and Arthur, two evangelicals from Wheaton, Ill.; Mila, the red-haired maiden from Kiel, Germany; and Keith, the interior design professor from Durban, South Africa. For all that we shared, I suspect none of us will mind if we never see one another again. It was enough to enjoy our chance encounters.

Here and there the past glitters, sometimes with eerie incandescence. East of Ponferrada, on a bleak and windy ridge 5,000 feet above sea level, sits the pilgrim refuge of Manjarín, presided over by the frankly spooky Tomas. We are in Templar country here, and though the knights and their order were suppressed long ago, in the 14th century, Tomas keeps their memory alive. Dressed in camouflage fatigues and a white surplice emblazoned with the red Templar cross, he declaims mysterious incantations throughout our communal dinner—as if it were a mass. What is he saying? Who knows. But we leave imbued with the spirit of the Templars, although not one of us could tell you what that is.

The *camino*, after winding through the lush Valcarce River valley, climbs another 5,000-foot ridge, then descends through clouds into Galicia, seen typically through mists. Along the cow path the boozy smell of dung and fermented silage vies with the perfume of eucalyptus. A last hill looms—the *Monte de Gozo*, or mountain of joy. Its summit grants us our first glimpse of Santiago—now just one and a half miles away.

Our spirits soar at the prospect of reaching our destination, and of being able to perform the rituals performed by so many before us: In the cathedral we will hug the jewel-encrusted bust of Saint James, then descend into the crypt to see the silver coffer that contains his relics. We will press our hand upon the stone column said to hold his very bones—the stone itself indented from the touch of countless other hands throughout the centuries. For now, though, we are grateful just to rest our weary feet. A Spaniard who had done the *camino* several times showed me his tattoos. On his left foot: "I'm tired." On his right: "Me, too." I could relate. F

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COLLECTING

Catch Me If You Can

Earl Washington has been making a mint selling woodblock prints he claims are the creation of his great-grandfather. Are they? By Alan Abrams

WHO CREATED THE STRIKING woodcuts that crowd the small studio in downtown Monroe, Mich.? It depends on what time of day you ask Earl Marshawn Washington, co-owner. A handsome 42-year-old, Washington attributes the works to his great-grandfather, a little-known African-American wood engraver named Earl Mack Washington, who lived from 1862 to 1952. Sometimes he speaks of his ancestor as having salvaged woodblocks from a fire-bombed print shop in midtown Manhattan in the 1880s; other times Great-Granddad becomes the engraver, as well as the printer, of some of the works.

Whatever the case, the art has proved a bonanza for Washington. Since 1998 as many as 60,000 Washington prints may have been sold on Ebay and at PBA Galleries in San Francisco and DuMouchelle's in Detroit, among other venues, at prices ranging from $20 to $350. Vaughn (Pete) Baughman, owner of Frogtown Books in Toledo, Ohio, says he bought 5,000 to 7,000 prints, paying Washington $12 to $35 each, and resold 2,000 or so over the Internet.

They are simple, attractive, sometimes starkly rendered prints, reminiscent of German expressionist work, but often reflecting black American themes. They range in subject from broadsides for Harlem's Cotton Club and expatriate dancer Josephine Baker to lynchings, the New Testament and erotica.

And to a widening ring of skeptics they are all fakes, created recently by the younger Washington. Some print-collecting lawyers and various art and book dealers have come to question whether Earl Mack Washington ever existed at all. The younger Washington hasn't done much to deflect their suspicion. A former girlfriend has come forward with the allegation that the younger Washington cut and printed woodblocks himself or with the help of apprentices.

He concedes that he is the artist of some prints and has enhanced various images on others. His back office contains at least 200 printing presses; he has acknowledged to a trade group that he has printed on 19th-century presses. "I won't challenge anything you say," he insists to FORBES—but sticks to his story about his ancestor.

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ıington admits to having re- some prints himself, he says he represented his own works as those of his great-grandfather.

"Washington's such a good liar," says Baughman of Frogtown Books, who no longer believes the prints are authentic. "That's what he does for a living."

Art fraud, of course, is nothing new. Not long after Johannes Gutenberg invented a printing press with movable type, master artist Albrecht Dürer warned on the title page of his *Life of the Virgin*, a collection of stunning woodblock prints, "You thieves and imitators of other people's labor and talents. Beware of laying your audacious hand upon this work." More recently, audacious hands were laid on the works of Spanish surrealist Salvador Dalí (1904-89): A 1999 scam revealed that Dalí himself may have signed thousands of blank sheets on which lithographs by imitators were later printed.

The Washington prints are a smaller affair than the proliferating Dalís. But they suggest a perilous trend for unwary collectors. If the Washington oeuvre (or, rather, its antiquity) was faked, it was done on a large scale with an elaborately created pedigree. More dangerous yet is that the prints are still being sold over the Internet (no one is currently doing so through Ebay, though Washington says he will resume such sales). On the Net, dealers can offer fuzzy disclaimers, and buyers can't examine the artwork up close.

"Just to keep people interested": Washington admits he sometimes creates and alters prints.

"When I saw the initials I KNEW THEY WERE WRONG by comparing the two."

If you are paying $50 for a nice-looking mail-order woodblock, maybe it doesn't really matter whether it was run off in 1899 or 1999. But if you are buying what you think is an Andy Warhol, you ought to think long and hard about authenticity. As many as "10% to 15% of the submissions to the [Andy Warhol Art Authentication] Board are not by Warhol," says Ronald D. Spencer of Carter, Ledyard & Milburn LLP, in New York, which represents the board.

First to sense something odd about the Washington woodblocks was Kenneth Martens, a Calgary lawyer and art collector. Five years ago Martens accused Washington of forgery for selling woodcuts bearing the penciled initials of Eric Gill, a British artist known for erotic prints. "I own an original Eric Gill," says Martens, "and when I saw the initials on the Washington [print] I knew they were wrong by comparing the two." Martens doesn't own any Washington prints, but three acquaintances do. One shared his misgivings about their genuineness—and Martens tried prompting various authorities to investigate, he says, to no avail. So he put up a Web site that posted circumstantial evidence contradicting Washington's story.

Meantime, the M.C. Escher estate detected what it claimed were prints counterfeited by Washington and sold by him (and later Frogtown's Baughman) on Ebay. Mark Veldhuysen, director of the M.C. Escher Co., complained loudly; Ebay promised to pull further listings. Veldhuysen also filed complaints of fraud against Washington with an FBI agent in the Sacramento, Calif. office. Why there? Because of information fingering Stacy Ortiz—a stripper who dances in Toledo clubs, the mother of two of Washington's children and now his third wife—as a source of the fake Eschers. Ortiz does not deny selling Eschers, and says she bought Washington his first press. "I said I'd support him until we could make some money from his art," she says, "even though at that time he had never even made a woodblock."

Marc Freiman, a Washington, D.C. print collector, claims to have found no evidence of an Earl M. Washington after scouring census records in the National Archives. Others found no mention of him in the accounts of artists who supposedly had befriended him. FORBES came up empty checking the Social Security database. Washington claims that relevant documents on his ancestor were thrown out after a fire in his family's house "in the late 1960s or early 1970s." An expert on the works of art deco illustrator Rockwell Kent noted that a Washington print listed on Ebay by Baughman was actually a reversed image from a catalog of Kent's work published in 1975—23 years after Washington's alleged death.

It was Martens' Web site that later made Thomas Pulsipher, a former Michigan state police officer, and his wife, Bethany, a onetime officer in the state's Department of Natural Resources, second-guess their purchase from Washington of 82 prints for $1,640. He'd visited their

shop, Prairie Home Antiques, in Schoolcraft, Mich. on June 17. Soon after, Tom phoned an FBI agent in Honolulu he had found on Martens' site who was accumulating complaints on Washington. Tom was told to go to the Kalamazoo County sheriff. He swore out a criminal complaint against Washington, alleging fraud and misrepresentation. "I want him prosecuted," he says. A law-enforcement source says that a Washington print has been sent by the FBI to its forensic lab to discover whether it is of recent origin.

One of Martens' collector friends introduced him to John A. Stewart—an attorney, director of the Amity Art Foundation of Woodbridge, Conn. and a collector. An owner of 257 Washington prints and a couple of woodblocks, Stewart planned to set up an exhibit of works by Washington in October and put up a Web site to advertise the show. He then developed second thoughts. Washington, he says, refused to supply any genealogical proof of his family tree. He further infuriated Stewart by sending prints to auction houses with a copy of Stewart's Web posting to "prove" their legitimacy. Stewart canceled the show, writing to Washington that "I believe you are not only the creator of the myth of the elder Mr. Washington, but the carver of the blocks that you attribute to the 'phantom,'" the phantom being the elder Washington. Washington the younger never responded. Asked about Stewart's accusation, Washington accuses him of not paying Baughman for the prints and woodblocks. (Baughman says he's owed no money.)

The most damning claims against Washington come from his former girlfriend—Terra Zavala, a 25-year-old Monroe hairdresser. In signed statements sent to Martens, Zavala alleges, among other things, that Washington trained her to cut woodblocks. She told FORBES that Frogtown's Baughman "wanted more [African-American] pieces, so Earl took me to look for anything that might make a good print." (Baughman confirms making the request.) "On one African-American print," she says, "I saw Earl draw onto the block a face that was smiling with one tooth shaded in." Zavala also claims that Washington told her he doesn't really know who his great-grandfather was.

What does Washington say? He answers some questions, deflects others. Relaxing in his office, a book about the counterfeiting of Salvador Dalí prints on his desk, Washington admits, "I am the artist on some [Washington prints]," adding, "I cut them and make them available to people at affordable prices." He also acknowledges altering some images that he originally claimed as the work of his ancestor, "just to keep people interested." As for those questionable Eric Gill woodcuts, he says he "only signed about 10 or 15." He claims that "experts" told him the prints were "real."

Washington also concedes that he frequently seeks out blocks of maple wood suitable for carving. "I'm a crackpot inventor," he says. Did he invent that great-grandfather? Absolutely not, he says. F

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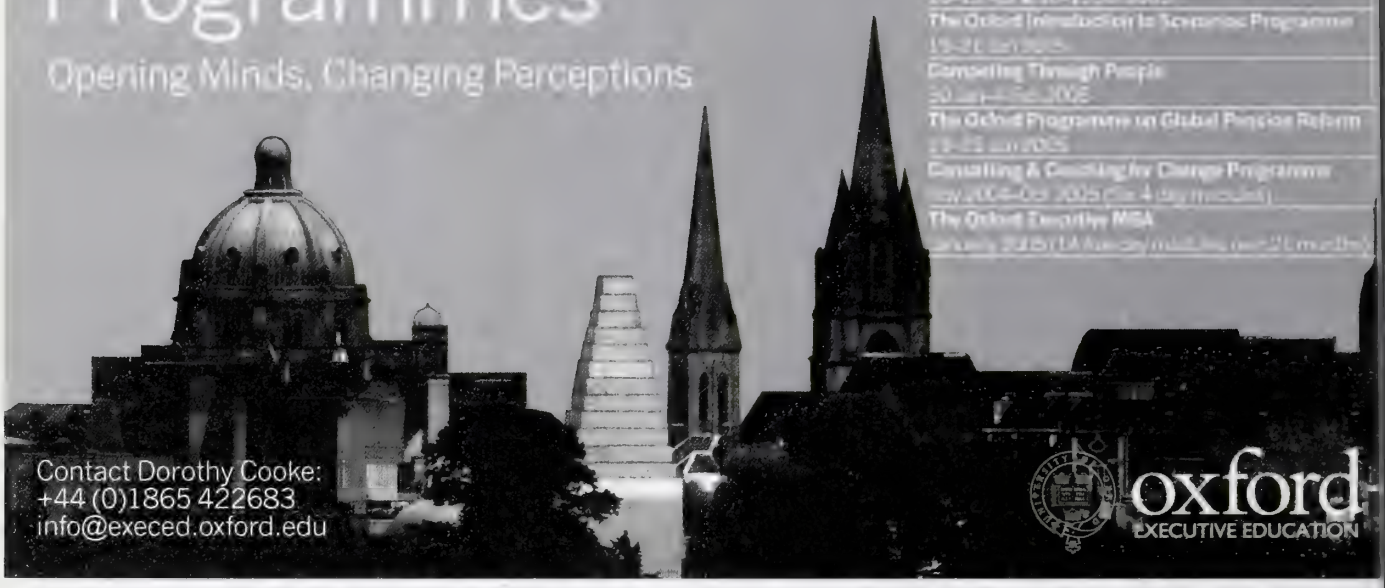

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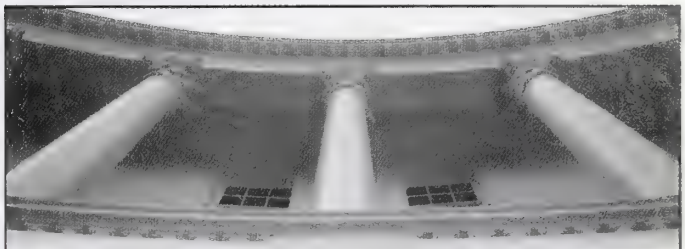

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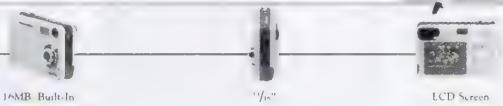

BELL+HOWELL Six Mega Pixel Digital Camera

Super-advanced 6.0-mega-pixel camera
This camera has twice the detail-resolution of most digital cameras. From a 4x digital zoom portrait to a distant panorama, it takes astoundingly beautiful photographs. Color is richer and more brilliant. Clarity is knife-edge sharp, and tones are incredibly true to life.

Longest battery/picture-taking time
Other digital cameras gobble up batteries almost as fast as a child can eat a bag of potato chips. Not the Bell+Howell®. It uses a very long lasting rechargeable lithium-ion battery, which will give you about 2 hours of continuous picture taking on a full charge.

Ultra small with tremendous built in memory
This camera is almost as small as a credit card. It's so small it can even fit in your shirt pocket. Yet it has an amazing 16 MB of built-in flash memory to store up to 109 photographs depending on resolution. Preserve nearly a lifetime of photographs by using the camera's SD card slot for removable memory cards.

Doubles as a camcorder
Capture those once-in-a-lifetime events in movie mode: baby's first steps, accepting a diploma, catching the wedding bouquet. You get 85 seconds of streaming video with built-in flash memory (30 seconds is the norm) and as much as 12 minutes on a 128 MB memory card (not included).

Reliable and built to last
This is not one of those plastic cameras tinted to look like metal. It has a shockproof aluminum body and durable construction that makes this the last digital camera you'll ever need to buy.

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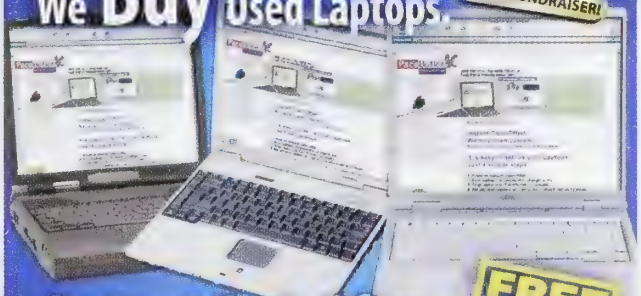

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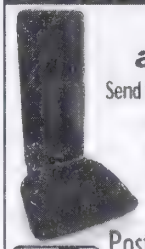

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THOUGHTS

On the Business of Life

Rich Texans don't agree on what rich is. Clint Murchison used to observe, "Down here we have a saying—a man is worth twice what he owes." During the Congressional probe after the Hunts' silver corner was turned, Nelson Bunker Hunt was quoted as saying, "People who know how much they are worth generally aren't worth too much." Here are two other rich thoughts: "The curse of the rich is that they are not allowed to die."—S.N. Behrman; and "If the rich could hire others to die for them, the poor could make a nice living."—Yiddish proverb. MALCOLM S. FORBES (1980)

I really didn't say everything I said.
—YOGI BERRA

The surest way to make a monkey of a man is to quote him.
—ROBERT BENCHLEY

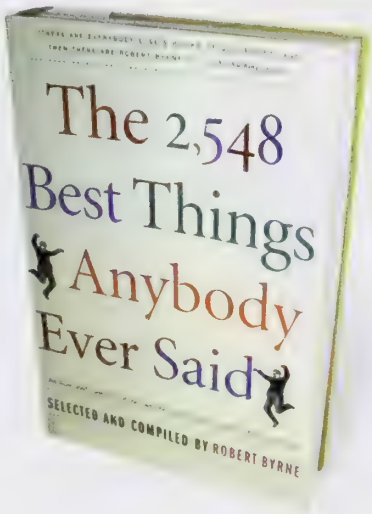
I love quotations because it is a joy to find thoughts one might have, beautifully expressed with much authority by someone recognizably wiser than oneself.
—MARLENE DIETRICH

He wrapped himself in quotations—as a beggar would enfold himself in the purple of Emperors.
—RUDYARD KIPLING

I always have a quotation for everything—it saves original thinking.
—DOROTHY SAYERS

Today I am a lamppost against which no anthologist lifts his leg.
—JAMES AGATE

I hate quotations. Tell me what you know.
—RALPH WALDO EMERSON



One of our favorite sources for quotes is Robert Byrne's The 2,548 Best Things Anybody Ever Said *(Simon & Schuster, 2003). If you're looking for quirky, often hilarious quotes, this book is for you. (The Yogi Berra nugget on this page is from Byrne's book.) Other favorites are* Simpson's Contemporary Quotations *(Houghton Mifflin, 1988);* The Columbia Dictionary of Quotations *(Columbia University Press, 1993); and* The Oxford Dictionary of Humorous Quotations *(Oxford University Press, 1996).—Ed.*

A quote is a personal possession and you have no right to change it.
—RAY CAVE

Misquotation is the pride and privilege of the learned. A widely-read man never quotes accurately, for the rather obvious reason that he has read too widely.
—HESKETH PEARSON

A fine quotation is a diamond on the finger of a man of wit, and a pebble in the hand of a fool.
—JOSEPH ROUX

To be occasionally quoted is the only fame I care for.
—ALEXANDER SMITH

A Text...

How beautiful are the feet of them that preach the gospel of peace, and bring glad tidings of good things.

—ROMANS 10:15

Sent in by Lee Kerr, Fresno, Calif. What's your favorite text? *Forbes Book of Quotations: Thoughts on the Business of Life* is given to senders of Bible texts that are used.

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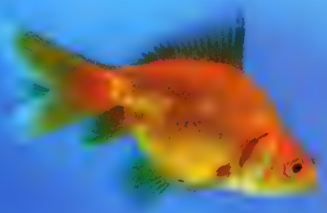

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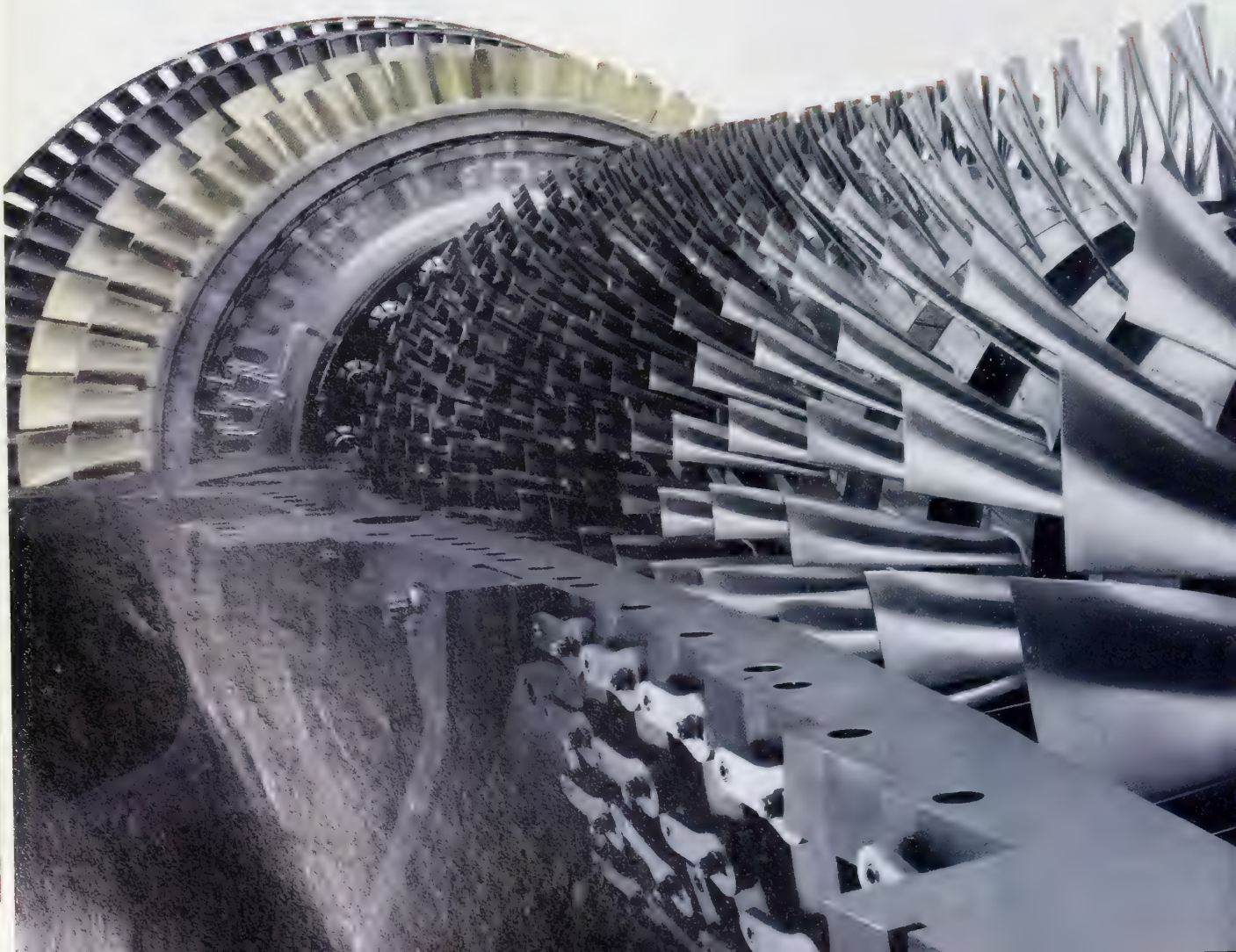

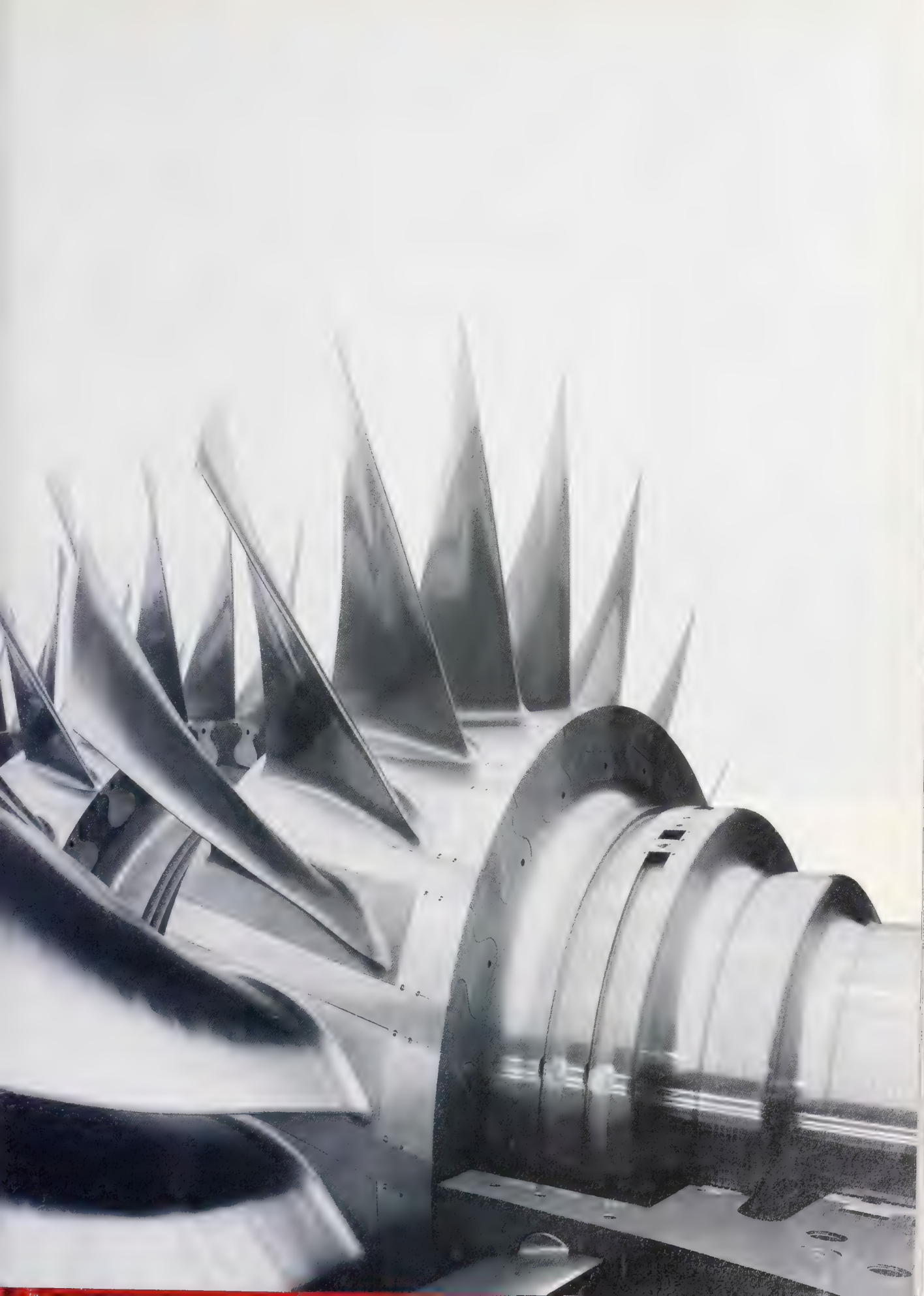

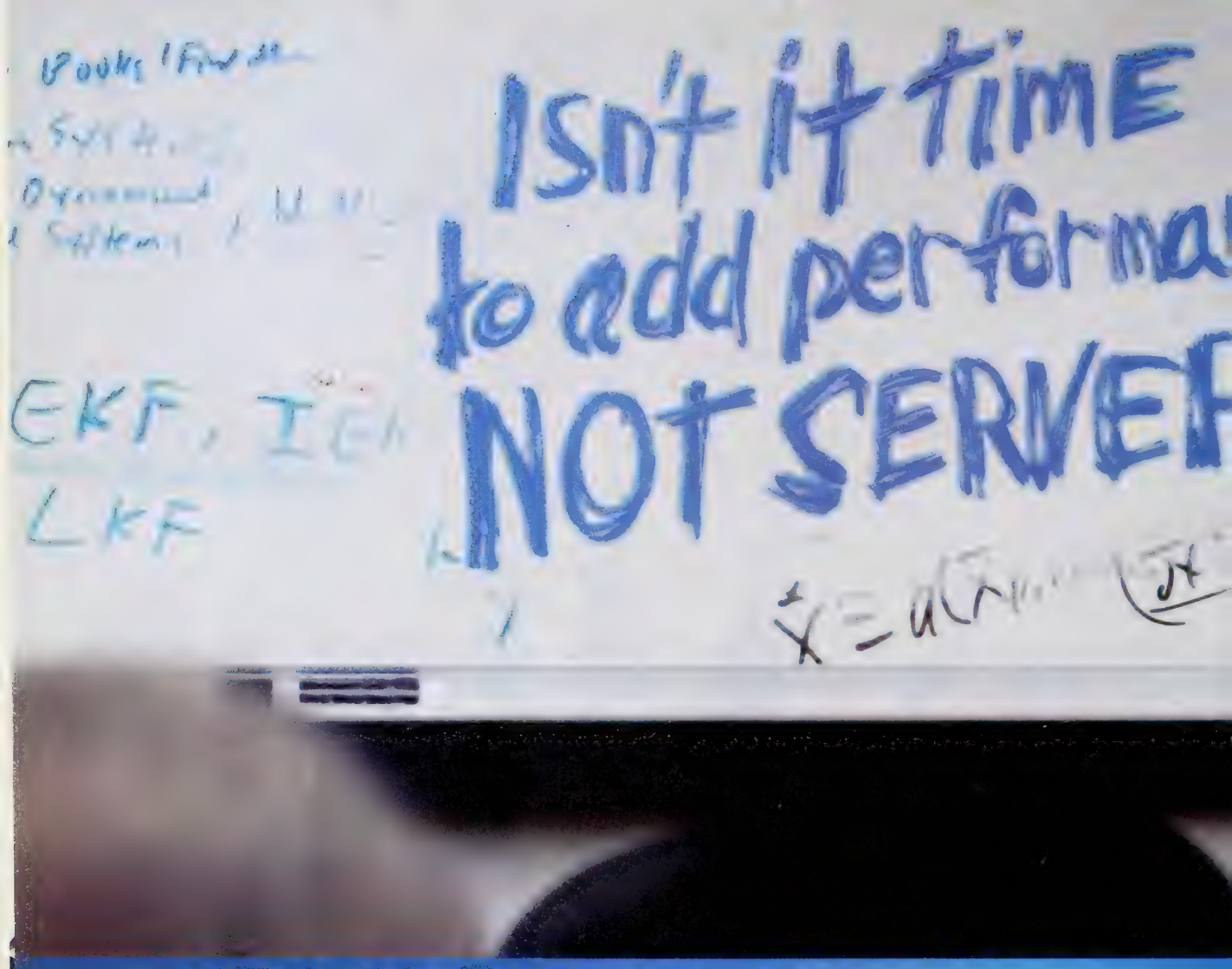

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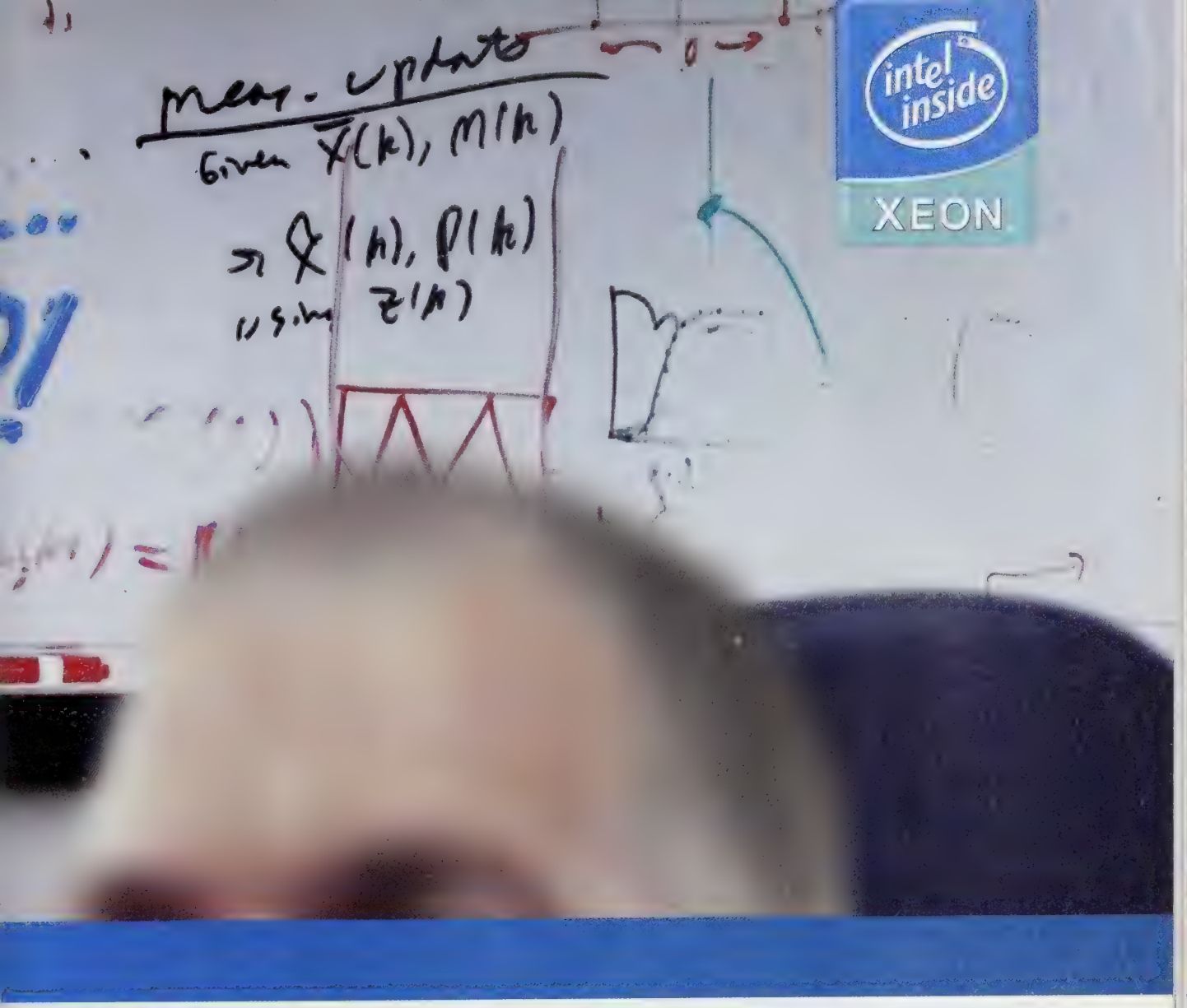

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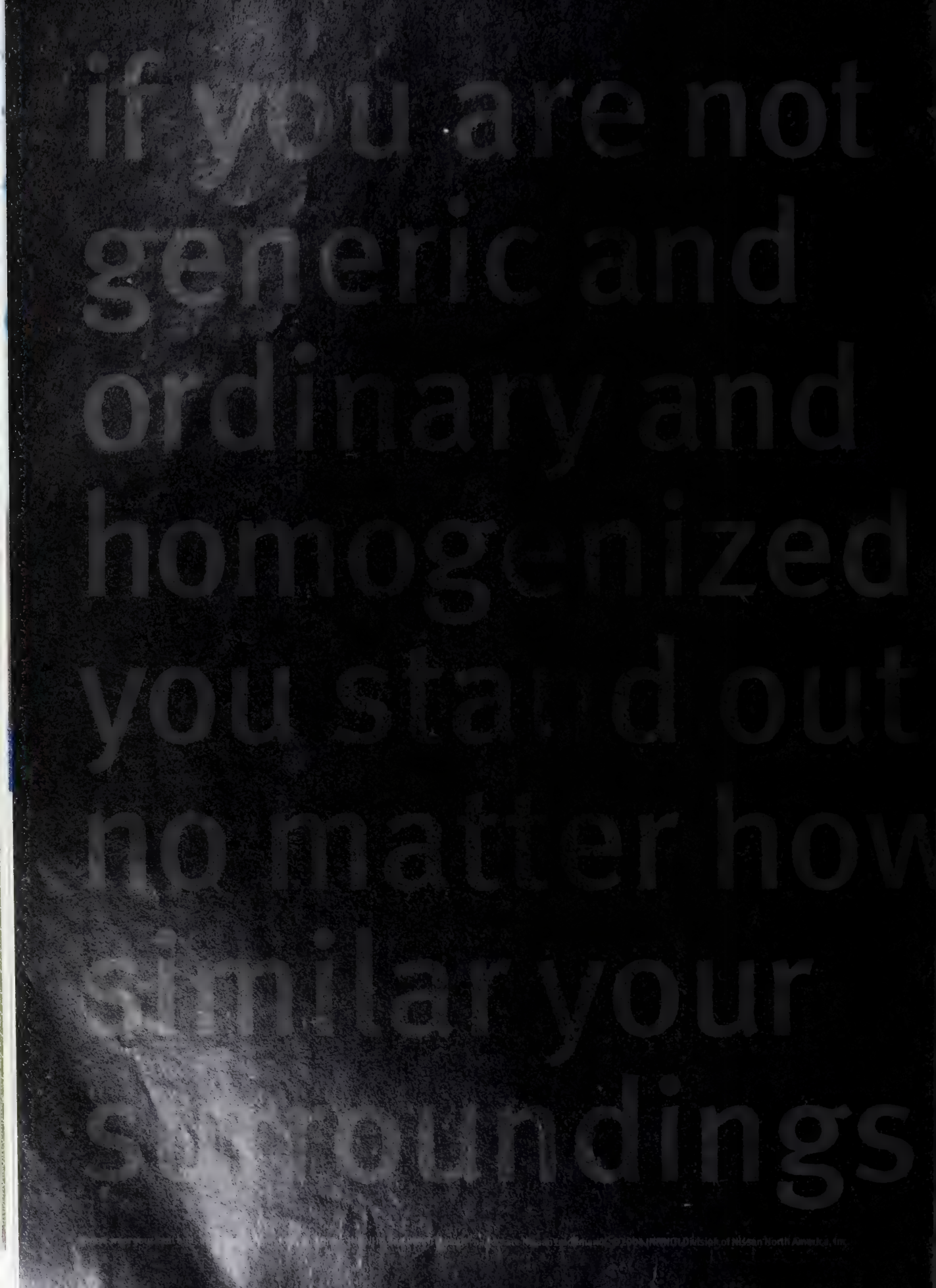
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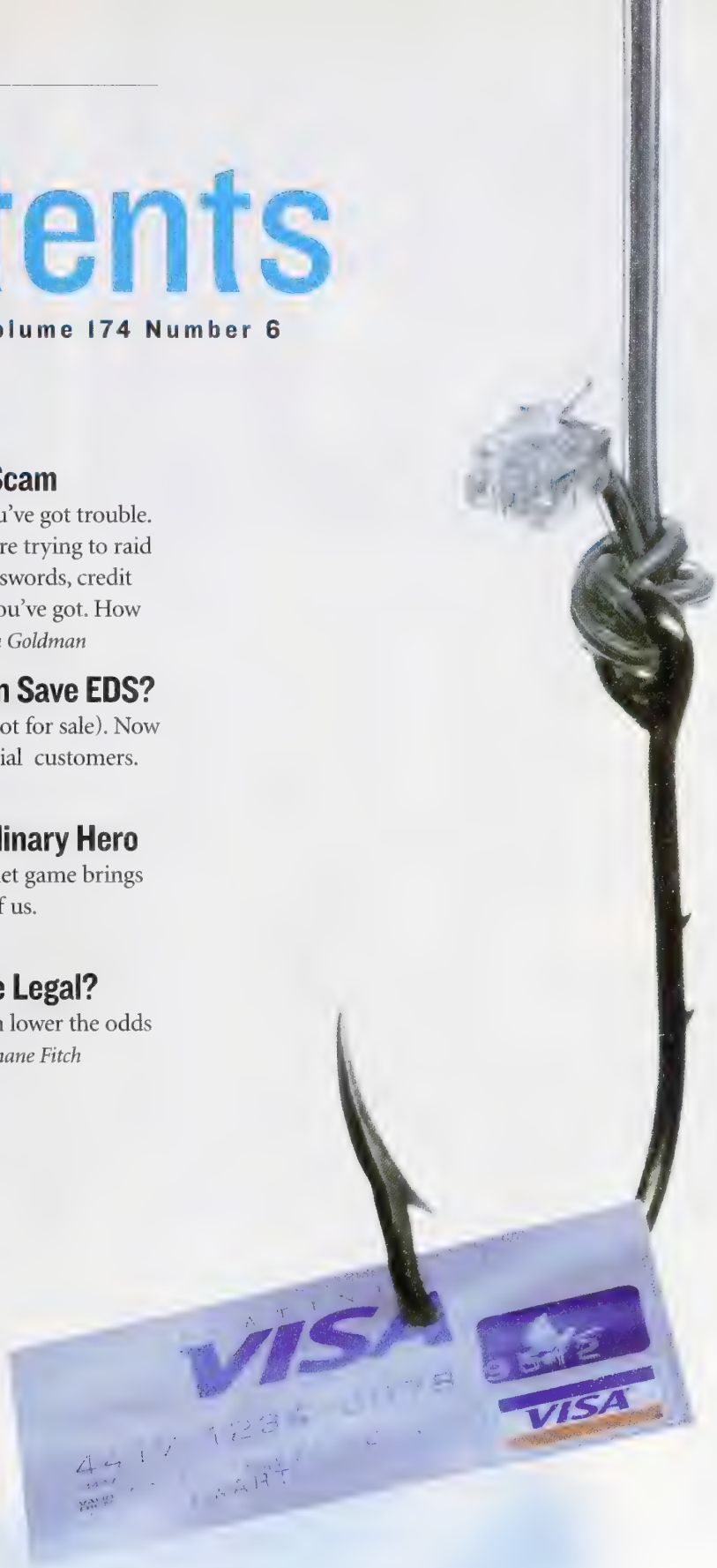

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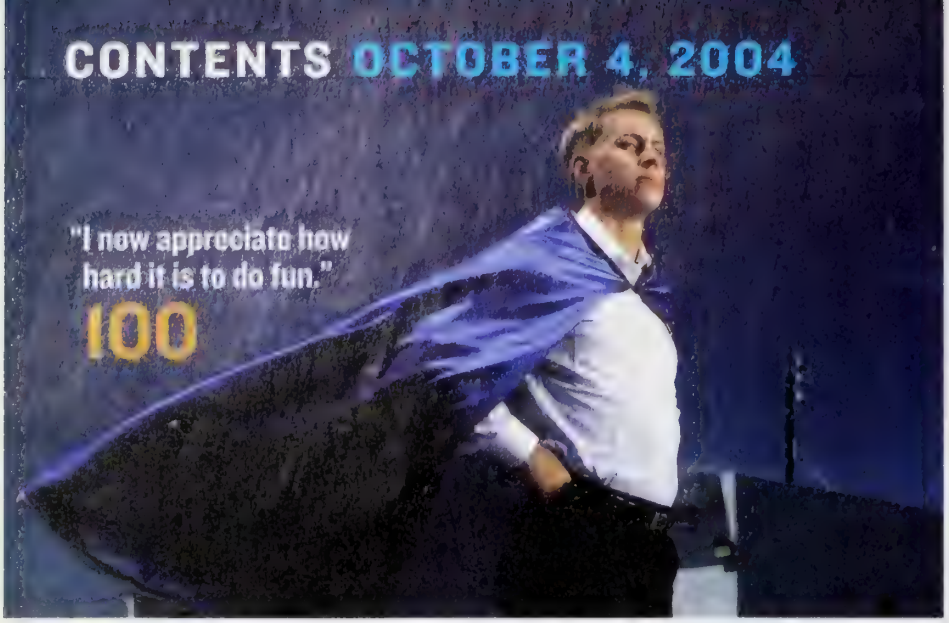

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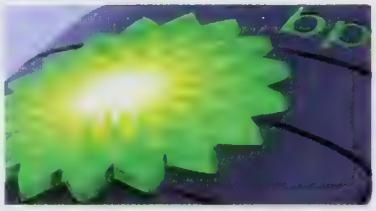

A-lister BP: great past, promising future.

If you are looking for companies of size and sustainability that also offer prospects for growth, let us suggest 400 familiar and not-so-familiar names from around the globe. You'll find them at the online version of FORBES GLOBAL's sixth annual roster of the world's most attractive big public corporations. Though they represent fewer than 1% of the world's publicly listed firms, we hazard that they are not just the A-list of the world's big companies but also prime candidates for a growth-oriented equities portfolio: Last year's A-list handily outpaced the S&P 500 by 45% to 24%. Go to forbes.com/extra and click on the A-list link.

Lifestyle

Fall New Car Forecast

Dan Lienert

Autumn is a new year for the automotive industry, with the arrival of the 2005 models. Several important redesigns of existing vehicles should be a hit with drivers, especially the Corvette, Mercedes SLK and Ford Mustang. All three have been given more horsepower. Other redesigns to watch for are the Dodge Dakota and Toyota Tacoma pickups. Hummer has a new variant, the H2 SUT, while the $255,000 Ferrari 612 Scaglietti coupe and the Land Rover LR3 are brand new. We also preview two important new American cars, the Ford 500 sedan and the Chevy Cobalt. See www.forbes.com/vehicles.

Land Rover LR3 has a 300hp V-8 and starts at $45,000.

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To maintain its position as one of the country's largest property and casualty insurers—while also positioning itself to offer a broader range of financial products—Allstate wanted to offer new ways of interacting with customers, and to do it on an aggressive schedule. Building on a long relationship with Allstate, Accenture deployed eight development teams to help design and implement The Good Hands Network, which adds integrated Internet and call center channels to the existing system of local agents. Deployed in just 18 months, the two new channels enable customers to do business with Allstate 24/7. Already, over 40 percent of the company's more than 6 million yearly inquiries are made outside of traditional business hours, further extending the company's standing as a high-performance business.

Wyeth

High-performance R&D, delivered.

Determined to boost its output of innovative new medicines, Wyeth's research & development leadership teamed with Accenture to reengineer the way the pharmaceutical company discovers new molecular entities and moves them through preclinical development and clinical trials. The companies designed and implemented vast changes to streamline operations and dramatically improve the effectiveness of Wyeth's proven R&D organization. Now, three years into the initiative, the productivity of Wyeth's drug discovery effort has risen 400 percent, early clinical trial cycle times have been cut by 60 percent, and a new high-performance model for outsourcing clinical data management is substantially reducing costs by about 50 percent.

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SIDE LINES

Twister If you want to see some acrobatics, check out the story about tapping your IRA to invest in small business *(see p. 126)*. Featured: one entrepreneur using tax-sheltered money to finance an ice cream novelty business, another trying to manufacture an oddball construction tool. Investing in such things or in real estate (another unusual option for self-directed retirement accounts), is suitable only for tax contortionists, involving as it does custodians, LLCs, CPAs, dummy 10% owners, appraisers and all manner of professional fees and surcharges. It is the sort of activity that only a lawyer could love. Author Ashlea Ebeling has a J.D.

I had some misgivings about exposing readers to these schemes. Wouldn't they be better off pursuing entrepreneurship through taxable accounts? Last year's tax cut for capital gains and dividends makes plain old un-tax-deferred venture capital a lot more attractive than it used to be.

Don't forget that tax-deferred accounts do not eliminate tax, they only defer it. Moreover, when money comes out of an IRA, it's taxed at the high ordinary-income rate (35% for FORBES readers). Start your ice cream business in a taxable account and your hit will be taxed at 15%. Ram it through an IRA and you wind up sharing 35% of your gain with the federal government, to say nothing of all those custodians and lawyers wanting a piece.

This is the beauty of a 15% tax rate: It almost puts the tax accountants out of business. If a tax is low enough, it's not worth getting muscle cramps trying to dodge it.

To engage in a bit of wishful thinking: Imagine that the top rate, not just on dividends and capital gains but on all income (above a large family exemption), is taxed at a flat 15%. Throw in a national sales tax and you could finance the federal government that way. Such a reform would endanger not just IRA custodians but whole swaths of the economy that feed off high rates and complexity—the bloated real estate industry and the tortured health insurance system, to name two.

Could we get such a reform? One of the presidential candidates professes to be a tax-cutter; the other has a fondness for things French, including French tax rates. But the truth is that both are big spenders and rates will go up, not down. That 15% rate on investments is set to expire Dec. 31, 2008. Tax lawyers have a lovely future.

William Baldwin
EDITOR

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BD FINDS UPS ORDER TO CASH SOLUTIONS ARE JUST WHAT THE DOCTOR ORDERED.

BD, a leading global medical technology company based in Franklin Lakes, New Jersey, develops and sells a broad range of health products for both consumer and clinical use. The company hired UPS Supply Chain Solutions℠ to create a more efficient distribution network for some of its product lines.

"The UPS Supply Chain Solutions team was extremely responsive to our needs," said BD's Manager of Distribution Services, Scott Baldwin. "They offered us an order to cash solution, with an emphasis on customer service and the flexibility to handle spikes and dips in volume."

UPS Supply Chain Solutions worked closely with BD to ensure a smooth rollout of the new distribution network. The transition required outsourcing the product inventory from three BD distribution centers to one UPS® managed distribution center. It also required transferring IT data to a UPS call center system.

The changeover was conducted during a weekend to ensure the system would be up and running the first business day with minimal service issues. "The UPS Supply Chain Solutions team was diligent and thorough," said Baldwin. "They thought of potential issues and resolved most of them in advance. And they did it all within a short time frame."

Today, buyers for major national retail chains transmit orders to the BD dedicated line at the call center to place orders. The call center sends the information electronically to the UPS Supply Chain Solutions distribution center where the orders are picked, packed and shipped. All orders are shipped within 24 hours, and orders received before 2 p.m. are shipped the same day. The call center invoices customers on BD letterhead and collects payments which are posted to a BD account.

"The business has been running smoothly and consistently with UPS Supply Chain Solutions," Baldwin said. "We are extremely pleased with the performance indicators for shipping accuracy and on-time delivery."

UPS Supply Chain Solutions continually seeks to add value and enhancements to BD's supply chain. When a major retailer wanted BD products repackaged into smaller cases within two weeks, UPS Supply Chain Solutions was able to quickly fulfill the request and help BD win a contract for the new business. To tighten inventory control, UPS Supply Chain Solutions tailored a cycle count program to help identify and clear nonselling stock.

> ***"The UPS Supply Chain Solutions team was extremely responsive to our needs."***
>
> *—Scott Baldwin, BD's Manager of Distribution Services*

Warehouse racking was reconfigured to accommodate new products and overflow inventory. To further improve their customer satisfaction, UPS Supply Chain Solutions worked with BD to build multicase orders into single boxes.

"The UPS Supply Chain Solutions team consistently recommends new ways to improve our supply chain processes," Baldwin said. "As a result, our customer satisfaction is high and we have experienced significant savings."

BD is now planning to launch an e-commerce website for the consumer health product line, backed by the UPS Supply Chain Solutions distribution network. "We know that we can count on UPS Supply Chain Solutions to continue to support us as our business needs evolve," Baldwin said.

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READERS SAY

Superstore Showdown

"Giant Slayer" *(Sept. 6, p. 72)* spotlights Albert Norman, but he is not Wal-Mart's greatest enemy. Rather, it is millions of thoughtful citizens like myself who see Wal-Mart for what it is: a retail monolith and arrogant monopolist that believes it is above the law and the wishes of the people. We may not be as vocal or active as Norman is, but we have fought back with the only weapon we have, our pocketbooks. Cheap is not the magic elixir. There is more to life than low prices. How about good wages, loyalty to one's community, small business and pride in American-made goods?

PAUL HERBIG
Angola, Ind.

Kudos to FORBES for a terrific profile on Albert Norman and his tactics for keeping Wal-Mart out of the towns that don't want to be part of the superstore invasion. There are online wholesale and closeout distribution centers, like my own, for stores that compete with Wal-Mart. Our mission is to give small retailers the same price advantages that the supercenters have carved out for themselves.

MARC JOSEPH
Chief Operating Officer, DollarDays International
Scottsdale, Ariz.

Poor Reception

"Broadcast Bullies" *(Sept. 6, p. 134)* didn't mention that Clear Channel, the nation's most powerful radio company, owns part of XM and in the early days owned a very large position. Without Clear Channel's support XM would not exist. Technology is moving so fast that XM was old news before it ever got started. There have been more iPods sold this year than there are subscribers to both satellite companies combined.

BARRY DRAKE
President and Chief Executive
Backyard Broadcasting
Baltimore, Md.

Operation Desert Spam

I wholeheartedly agree with "The Nex Terror Threat" *(Sept. 20, p. 70)* Carnegie Mellon, a partner with th U.S. government in monitoring threat to cybersecurity, just opened a campu in Saudi Arabia. Funded by the Saudis it will encourage computer-related edu cational exchanges between the tw countries. Such training may be a wa to keep an eye on budding terroris hackers. But it could also open the U.S to threats from terrorists themselve who might exploit this access to ou Internet security.

LYNN CLINTON
Pittsburgh, Pa

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Wanted: Law School Dropouts

In "Quota? What's That?" *(Sept. 6, p. 92)* you astutely discredit foolish judges who push governments to hire underachievers. From my 24 years of preemployment test research, I found that the best hires are those whose test scores match high achievers' scores. Let's teach judges a lesson: Force judges who rule for hiring low-scorers to have only losers work for them, and do not let them fire the underachievers. This will demonstrate to them why productive organizations hire applicants who score like winners, not losers.

MICHAEL MERCER, PH.D.
Business Psychologist
The Mercer Group
Barrington, Ill.

Next Time, Try Drano

Your story on Home Depot, "House Call" *(Sept. 6, p. 93)*, is very timely. My wife and I just finished a $5,000 kitchen remodeling job, using Home Depot as our primary supplier. Because of our extremely bad experience with a Home Depot plumbing subcontractor, our next 20 years of hardware purchases will likely be from Lowe's. If Home Depot wants to enhance its long-term profitability, it needs to do a much better job screening its subcontractors. One big screw-up will wipe out a hundred attaboys!

ED AND KYLE STACEY
Richardson, Tex.

Going Ape Over Grammar

Some time ago FORBES requested readers submit hackneyed words to be removed from your pages. The term to eliminate is "grease monkey," which appeared in "Bumper-to-Bumper Education" *(Sept. 6, p. 77)*. People who work on cars are mechanics, technicians or gearheads. "Grease monkey" is a term that borders on the pejorative.

ISAAC MARTIN
Sherman Oaks, Calif.

Ivy League Levy

In "Your Charity Dollars at Work" *(Side Lines, Sept. 6, p. 24)* I agree with your

assertion that nonprofit reform is needed. But on your point about taxing all corporations, including universities, I submit that Harvard, and every other university in the country, is not in the *business* of education. Only proprietary institutions, like the University of Phoenix, are out to make money, and they are subject to tax policies imposed on the private sector. Universities seek to expand, transmit and preserve knowledge, engaging in a wide variety of activities to fulfill this purpose, and not for any other reason.

ANTHONY KNERR
Managing Director
Anthony Knerr & Associates
New York, N.Y.

Overstating the Case

Law firm Goodkind Labaton Rudoff & Sucharow was cited in "The Class Action Industrial Complex" *(Sept. 20, p. 150)* for earning 40% in legal fees and expenses on the $551 million in class action settlements it negotiated last year. Those figures did not include a $457 million settlement—the firm's largest in 2003—against Waste Management, for which fees and expenses totaled 8.1%. That brought the firm's overall fee and expense percentage down to 13.5%.

In "The Song Remains the Same" *(Sept. 6, p. 54)* we said that Avadis Tevanian Jr. is Apple's chief designer. That job is actually held by Jonathan Ive.

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FACT AND COMMENT

By Steve Forbes, EDITOR-IN-CHIEF

"With all thy getting get understanding"

Bully Bull

THE STOCK MARKET IN 2004 HAS BEEN, AT BEST, TREADING WATER. Yet presidential election years are supposed to see equities rise. This one will be no exception. Stocks often go up in rapid bursts. As people grasp that President Bush will indeed be reelected, the market will experience a sharp rally. Expect the S&P 500 to end the year well above 1250, up at least 12% from year-end 2003.

Waffler-in-Chief

A CRITICAL REASON THAT JOHN KERRY'S ONCE-ASSURED ELECTION is going up in Deweyesque smoke is Kerry's inability to pass the Commander-in-Chief test: Can this candidate be trusted to ensure our security in a manifestly insecure world? In the three previous presidential contests, voters could ignore that question. But they can't now, not after 9/11. Yet Kerry comes across as though he thinks he can deal with mortal, major foreign policy issues by senatorial fudging and "nuancing."

• **Iran.** The mullahs will soon have nuclear weapons. What should the U.S. do? Europe has tried its ineffective diplomacy and has, predictably, come up empty-handed. Yet Kerry thinks that a big bribe (known in diplomatic parlance as "assistance" or "energy development aid") will stop Iran's impending nuclear capacity. But Iran's hardheaded clerical hoodlums won't take that bait, figuring they'll shake us down for even more once they have the actual thing.

• **China/Taiwan.** There's a power struggle going on within the Chinese government. One side is emphatically brandishing the nationalist card with its get-tough attitude toward Taiwan's independence-minded government. When President Bush took office, he made it clear that an unprovoked attack on Taiwan by mainland China would mean war with the U.S. Will Kerry make such a commitment? So far, no. This could invite real trouble if Beijing interprets his "nuancing" as a de facto green light for it to deal with Taiwan using force.

• **Iraq.** The Senator has been all over the map on this. The impression he leaves, however, is that he will pull us out as soon as he finds a shred of a fig leaf. Our withdrawal will encourage Iran to step up its support of dissidents in Iraq, and in the Middle East and elsewhere it will be seen as the terrorists' having triumphed over a weak-willed Uncle Sam.

• **Venezuela.** The country's ruler, Hugo Chávez, is a Castroite thug who rigged the recent recall election. Chávez is supporting neighboring narco-guerrillas while suppressing his domestic opponents. Does Senator Kerry really believe "dialogue" will make Chávez see the sweet light of democracy?

The perception that John Kerry is soft on national security is why he can't credibly attack President Bush for mistakes the U.S. has made in Iraq, such as our failure last spring to secure Fallujah when the Marines were on the verge of doing so; the leathernecks were pulled back on the eve of victory.

All the talk on domestic issues won't get Kerry into the White House without his overcoming the Commander-in-Chief hurdle. Even with all the setbacks and disappointments in Iraq, voters will go with an incumbent who has clearly demonstrated that he understands the true stakes involved in our war against Islamic fanaticism and who has the resolve to see the conflict through.

Big Change Is the Ultimate Security

DEMOCRATS WILL BASH PRESIDENT BUSH AND FELLOW REPUBLICANS for "jeopardizing" Social Security by "subjecting" the system to "risky schemes" ostensibly in order to save it from insolvency. Contender Kerry, with a straight face, says Social Security needs only a few tweaks here and there. Since the President brought the subject up in his acceptance speech at the GOP convention, timorous Republicans must now actively take on this once-career-destroying issue.

For starters the GOP and sensible Democrats should hammer home the fact that the system's long-term deficit is well over $10 trillion, more than twice the national debt held by the public. (Medicare is in even worse shape, with an actuarial shortfall of more than $30 trillion.) Democrats will cry that any reform will require more government spending to pay for the transition and thus will increase the deficit. Republicans can properly counter that the debt is already there—the question is what to do about it.

Permitting workers, if they so choose, to have the bulk of their Social Security tax—now 12.4% of their salary (paid half by the worker, half by the employer), up to $87,900—put into their own personal retirement accounts would not only provide them far better future benefits but also strengthen the economy enormously by supplying billions of dollars more in investment capital. How to pay current beneficiaries? Partially by using the portion of the Social Security tax that doesn't go into personal retirement accounts and partially by issuing bonds. Over time, as current beneficiaries depart this world, the piece of the payroll tax that the government gets could be used to retire those bonds. In short, what is now a massive liability could be turned into a major wealth creator.

More than 20 years ago, local government workers in three Texas counties (one of which is Galveston) pulled out of Social

Security. Workers' taxes instead went into fixed-income securities—guaranteed interest contracts from solvent insurance companies, bonds and bank CDs. No stock market risk whatsoever. Lo and behold, retiring workers in those counties are now receiving benefits 50% or better than what they'd be receiving had they stayed in the traditional Social Security system.

Pauperizing Pension of Last Resort

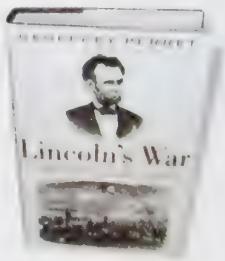
UNITED AIRLINES' ANNOUNCEMENT A FEW WEEKS AGO THAT IT might dump all of its employee pension plans onto the Pension Benefit Guaranty Corp., the federal agency insuring defined-benefit pension plans for corporate workers, has raised the specter of another savings-and-loans-like bailout crisis. United might be followed by other struggling companies, including some of its large and floundering competitors, whose plans are woefully underfunded. The PBGC has gone from a surplus of nearly $10 billion in 2000 to a deficit of $11 billion last year. The shortfall could balloon to $50 billion or more if likely to fail plans actually bite the dust. Underfunding for corporate pension plans as a whole exceeds $300 billion.

The PBGC's problems are fundamental, as you'd expect from a government entity. Premiums are almost always the same, regardless of the condition of a particular pension plan. Sure, there's supposed to be a surcharge for underfunding, but that provision is riddled with loopholes. Earlier this year, in fact, Congress politicized the issue even more by giving a pass to the airline and steel industries for making payments that would reduce the underfunding of their plans.

What to do? Obviously, the day of reckoning would be put off with another stock market rally, which is highly likely by year's end. Longer term, though, Congress should enact substantial systemic reform: requiring more transparency so that workers can know the condition of their corporate pension systems; and doing away with those loopholes that enable companies to underfund their plans. Finally, the PBGC itself should be converted into a so-called self-insurance pool, with no government guarantees. This would put pressure on companies to pay realistic premiums and would make them incapable of turning a blind eye to underfunding. Congress could give the new entity a one-time shot of cash to make the transition. Former chief economist of the PBGC Richard A. Ippolito suggests allowing pensions to obtain private-sector insurance, which would also put pressure on companies to maintain proper levels of premiums.

Our Most Formidable—and Compassionate—Warrior

Lincoln's War: The Untold Story of America's Greatest President As Commander in Chief—by Geoffrey Perret (Random House, $35). A very readable account of how Abraham Lincoln shaped the modern role of the President as Commander-in-Chief. The Constitution never defined the scope and limits of the President's powers during wartime. Perret demonstrates that Lincoln's concept of the role was far broader than that of any of his predecessors or successors.



Lincoln's political skills enabled the Union to mobilize a military of unprecedented size and to keep most of the country that hadn't seceded firmly behind the war effort. He set military strategy. He made key decisions concerning appointments of military commanders. He suspended the writ of habeas corpus. His government didn't hesitate to arrest enemy sympathizers. Lincoln immersed himself in the details of weaponry, realizing before many so-called experts did the need for ironclad ships like the U.S.S. *Monitor* and for breach-loading, repeating rifles. (He even personally tested rifles.) He never hesitated to push and prod his field commanders.

Figures such as Simon Cameron, Lincoln's first Secretary of War, and Major General Benjamin "Beast" Butler, receive their due. Perret makes clear what a giant Edwin Stanton, Lincoln's second Secretary of War, was. Lincoln had the unique ability to quickly size up an individual's capabilities, not letting other people's egos, eccentricities and propensities to scheme blind him to what someone could bring to the war effort. While making momentous decisions on which the fate of the nation truly rested, Lincoln never let himself forget the human consequences of those decisions: "No president ever visited so many sick or wounded men. He saw their suffering, absorbed some of their pain as his own rightful portion."

RESTAURANTS: GO, CONSIDER, STOP

Edible enlightenment from our eatery expert Tom Jones and colleagues Patrick Cooke and Monie Begley, as well as brothers Bob, Kip and Tim.

● **Trinity**—2 Avenue of the Americas, at Church St., TriBeCa Grand Hotel (Tel.: 212-519-6678). A chic and serene place located off the hip lobby lounge. Best bets: a delicious, flavorful duck breast and a mouthwatering selection of vegetable sides. Save room for the desserts, especially the fig tarte Tatin with pistachio shortbread.

● **Josie's**—300 Amsterdam Ave., at 74th St. (Tel.: 212-769-1212). Deservedly popular, Josie's offers healthful fare that includes a large selection of vegetarian dishes. Favorites: butternut squash soup sprinkled with pumpkin seeds, a yellowfin tuna burger served with a sharp wasabi sauce, and the berry pie with walnuts.

● **Brasserie LCB**—60 West 55th St. (Tel.: 212-688-6525). A cheerful spot that's commendable in every way: service, decor, food. Fabulous crab cakes. The joint is jumping. Go and enjoy.

● **Rare Bar & Grill**—303 Lexington Ave., at 37th St., Shelburne Murray Hill hotel (Tel.: 212-481-1999). Most of what's offered is of the burger variety: the wonderful standard, as well as turkey, salmon, and shrimp-and-crab burgers, burgers topped with foie gras and burgers made of U.S. Kobe beef. The desserts are sinful. F

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DARREN CAHILL
Andre Agassi's coach

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There are those, I know, who will reply that the liberation of humanity, the freedom of man and mind, is nothing but a dream. They are right. It is. It is the American Dream.

—ARCHIBALD MACLEISH

If I Were King We live in a world where the second-guesser aspires to be king. Everybody has brilliant 20-20 hindsight. It's worse in political campaigns. Those who weren't in positions of power know exactly what they would have done if they had been. The most telling question and answer to date turns John Kerry into Third-Grader-in-Chief. Asked what he would have done when he got the news about the airplanes crashing into the Twin Towers while he was reading to schoolchildren in a Florida classroom, Mr. Kerry replied: "I would have told those kids very politely and nicely that the President of the United States had something that he needed to attend to. And I would have attended to it."

Condi Rice is right. She can't imagine how anyone could know exactly what he would have done. Should the President have jumped up in panic, alarming the children and the world while the cameras rolled? That would have made a dramatic show, but what counts is what the President did subsequently—the firm, fierce, resolute statements to the American people, inspiring them to the grim task at hand in Afghanistan.

—SUZANNE FIELDS, *Townhall.com*

No Pipe Dream [In December] the chief actuary of the Social Security Administration confirmed the feasibility of every worker's owning a substantial personal retirement account: He issued a favorable official analysis of a proposal put forth by Peter Ferrara in a study published by the Institute for Policy Innovation. The SSA report demonstrates conclusively why it is unnecessary even to contemplate reducing future Social Security benefits or raising payroll taxes and why all the hand-wringing over borrowing money to finance the transition is misplaced.

Publication of the SSA report makes it official: We can create a shareholder democracy for the 21st century in which every working man and woman not only has a vote but also owns property, where each citizen can look forward not just to retirement security but retirement prosperity. A new, personal-accounts-based Social Security system would promote individual wealth creation and ownership, and it would allow each American—especially women, the poor and minorities—to participate in America's economic success. Members of Congress, are you listening?

—JACK KEMP, cochairman, FreedomWorks, *Washington Times*

Of Two Minds If John Kerry is elected, he would be the first President to deliver the State of the Union address and the rebuttal.

—JAY LENO, remarks at the White House Correspondents' Association dinner, *Associated Press*

Hindering Pension Reform While both the airline and steel industries claimed that without special treatment [in the recently enacted Pension Funding Equity Act] they would have to discontinue their pension plans, the only real reason to give these industries' pension plans special treatment is their lobbying muscle. Although both industries are facing severe financial problems these problems were not caused by pension-funding requirements. Since taxpayers will be called upon to shoulder the cost if their pension plans fail, the net effect of pension relief is to shift some market failure risk from stockholders and lenders to taxpayers. If this is allowed for the airline and steel industries today, which "deserving" industry will be able to persuade a weak Congress to grant it equal relief tomorrow, citing this legislation as a precedent.

—DAVID C. JOHN, Heritage Foundation

* * *

As long as sponsors of underfunded pension plans are not held responsible for the exposure they impose on the Pension Benefit Guaranty Corporation, ultimately either the premium level must increase, in which case some of the cost will be shifted to well-funded pensions in the short run, or, if exposures create claims that reach catastrophic levels, taxpayers will be called upon to provide a bailout through the PBGC.

—RICHARD A. IPPOLITO, former chief economist at the Pension Benefit Guaranty Corporation, for Cato Institute

Lincoln's Prowess On June 14 came reports that Confederate forces were mounting stiff attacks on the Union garrisons at Winchester and Martinsburg. Lincoln saw an opportunity for a spoiling attack and sent a message to Hooker: "If the head of Lee's army is at Martinsburg and the tail of it on the plank road between Fredericksburg and Chancellorsville, the animal must be slim somewhere. Could you not break him?"

—GEOFFREY PERRET, *Lincoln's War*

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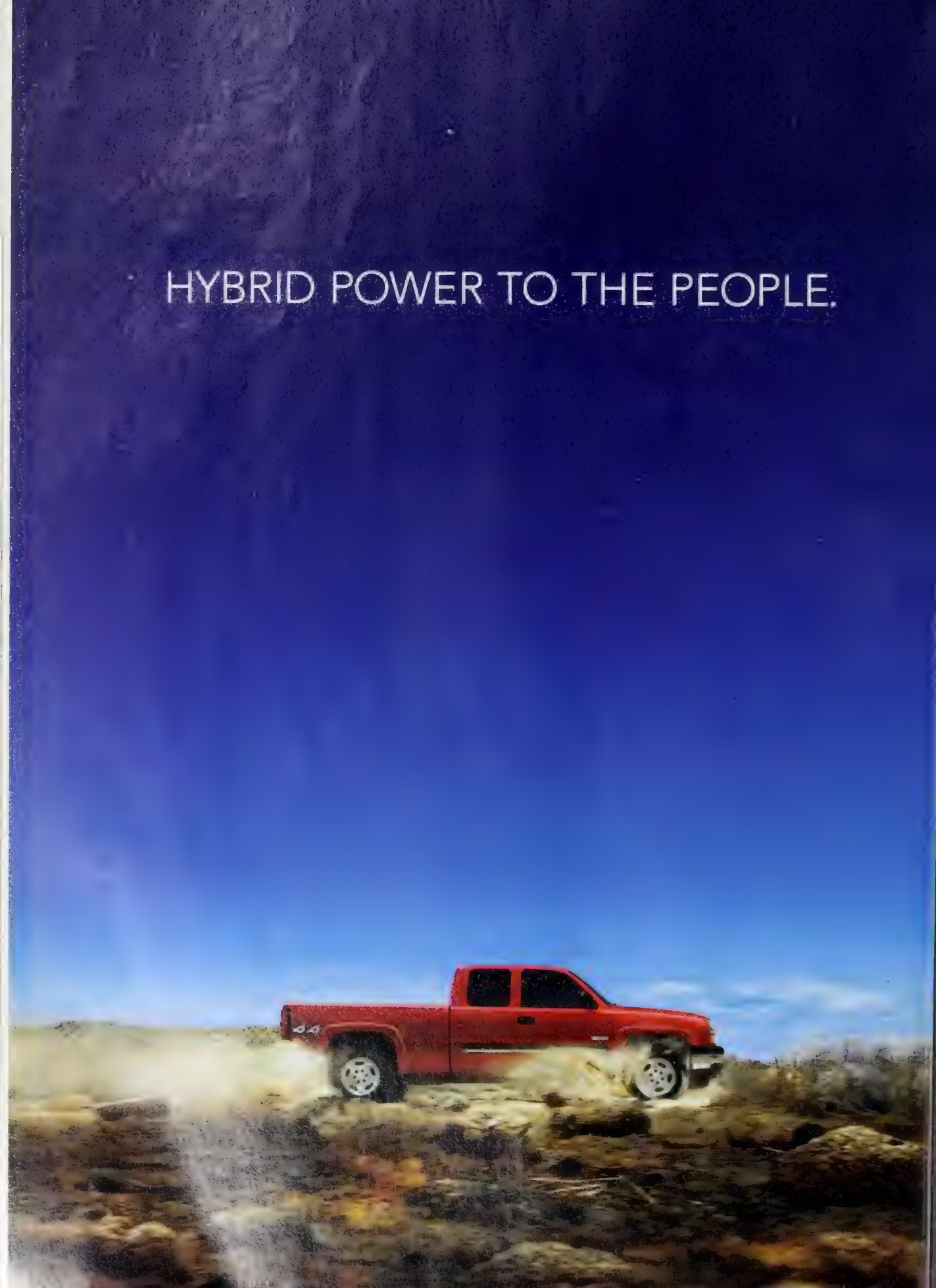
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By Caspar W. Weinberger, CHAIRMAN

Books of Summer XII

THIS HAS BEEN AN ESPECIALLY GOOD READING SUMMER FOR devotees of American Colonial and Revolutionary history. First and, in my opinion, the best of the many new books covering this period is **Washington's Crossing**—by David Hackett Fischer (Oxford University Press, $35). Professor Fischer is a noted historian, whose *Albion's Seed*, published in 1989, tells the story of those descendants of the British who settled here and helped create the United States. His *Paul Revere's Ride* has also been widely and justly praised.

Washington's Crossing tells the complete story of General George Washington's most daring, risky and successful venture early in the war. Following a succession of victories by the British and their mercenary forces, which had resulted in the loss of New York for the Americans, the British were within sight of Philadelphia, where the new American Congress was sitting.

Washington's army had been all but destroyed, and the British were surging across New Jersey. Washington's decision to cross the Delaware River on Christmas night 1776, when it was considered virtually impossible, was a move both bold and foolhardy. A flotilla of small boats crammed with soldiers, guns and horses somehow rowed across the river through one of the East's worst winter snow and ice storms. (The crossing as painted by Emanuel Leutze in 1851 captured this event spiritually and has become a great icon of the Revolution.) By crossing the Delaware, Washington placed the remnants of his army in a position to trap the British behind Trenton and, a few days later, to give that army and the cause for which it fought its first real victory. In many ways the shots fired at Trenton were the shots "heard round the world."

Professor Fischer conveys in a remarkably realistic way what combat and the fog of war are actually like. But, more important, he tells the story of what it was like for Washington to lead a discouraged, underequipped army that was constantly being micromanaged by a divided Congress that couldn't—at least at the beginning—decide whether it wanted independence or, simply, to get the Stamp Act repealed.

For those who still wonder how the Revolutionaries ever defeated the huge British forces arrayed against them, both on land and at sea, this book makes clear that it was the military genius and leadership of George Washington that turned almost certain defeat into victory. *Washington's Crossing* is an essential and exciting key to a more complete understanding and appreciation of what our ancestors did to win the Revolution.

A new biography, **Alexander Hamilton**—by Ron Chernow (Penguin Press, $35), is another superb book I read this summer. Hamilton served as principal aide to General Washington from the early days of the Revolution. This gave him a ringside seat at the formation of the United States and its implausible victory over the British, who had deployed one of the world's finest military machines but lost to a ragtag army of upstarts.

Chernow's splendid, thorough and brilliantly written biography gives us a new understanding of Hamilton's vital role during the war and immediately after as Secretary of the Treasury of this new entity on the world's stage. I doubt that many people realize how much of our country's financial structure we owe to Alexander Hamilton. This book goes beyond the standard fare offered in most American history classes. Hamilton's towering intellect, as well as his many faults, and his long, fierce disagreements with Thomas Jefferson, John Adams and many of the other Founding Fathers are presented here with almost shocking candor.

There have been other biographies of Hamilton, but Chernow's is far and away the most comprehensive and compelling of any I have read. It is a fitting tribute to the man who set the U.S. on the path that has made our nation the economic leader of the world.

Another treat for Revolutionary history enthusiasts is **The Americanization of Benjamin Franklin**—by Gordon S. Wood (Penguin Press, $25.95). This delightful new study focuses on the actual aristocratic and elitist views and opinions of this so-called populist leader, who was one of our best-loved, most influential and renowned spokesmen to the world.

Moving away from Revolutionary times, I next read, and thoroughly enjoyed, **Miles Gone By: A Literary Autobiography**—by William F. Buckley Jr. (Regnery Publishing, $29.95). Buckley, a major founder of today's sensible conservatism, has led an extraordinary life, which fully matches his extraordinary talents. His subtitle is apt, as the book contains essays on sailing, skiing, music, old friends and colleagues and all manner of other diverse subjects, which are united in that they have all been of interest to one of the best minds and writers in America today. F

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By Rich Karlgaard, PUBLISHER

Three Ways to Beat a Flat Market

UPPOSE WARREN BUFFETT IS RIGHT ABOUT THE STOCK MAR-
et's being under house arrest for another ten years. I don't want
his to happen, nor do you. But history speaks. The S&P didn't
ecapture its 1929 highs until 1954. The Dow first brushed 1000
n 1966 but failed to break out for good until 1982. It got as low as
77 during the dog days of the Nixon denouement.

So if Buffett is correct, forget indexing. Forget buy and hold.
f you want to achieve boffo returns, you'll have to adopt one of
hree methods: pick tomorrow's superstars, time the market or
ime prices.

On a recent Forbes investor cruise, attendees got the low-
own on these three methods. I'll explain more in a minute, but
ny take is that all three can work. Two will be very hard work;
he other requires less footwork but scads more patience and
ndependence of mind.

Pick Tomorrow's Superstars. Wish you'd bought Microsoft
vhen it went public in 1986? Or Intel after Andy Grove had
unked memories for microprocessors? These picks look like
o-brainers—now. Moore's Law foretold the rise of personal
omputers. Grove and Bill Gates were guys (we'd learn) who'd
ather suffer leprosy than failure. They were Roman conquerors.
Other early PC heroes, such as Steve Jobs and Mitch Kapor, now
ook like yesterday's dreamy Athenians. You probably lost
noney betting on them if you got in too late, which many of us
lid. How were we to know? Who knew Michael Dell would
eep his focus, while Gateway's Ted Waitt would lose his in a
nidlife crisis?

Nanotechnology has a mortal lock on being tomorrow's
old mine. It will produce trillions of dollars in new wealth over
he next century. It's sure to reshape every industry it touches—
omputing, materials, health care and so on. But which
anofranchises will emerge as comparable to Windows and
entium? Which CEOs will walk in the path of Gates, Grove or
Dell? Sorting this out won't be easy. It'll require four talents: a
eep scientific understanding of nano, the ability to see market
orces at work, financial acumen and an instinct for discerning
he Dells from the Waitts. Your best bet is to read the excellent
orbes/Wolfe Nanotech Report (www.newsletters.forbes.com).

Time the Market. Ralph Acampora heads technical analysis
or Prudential Equities. He's squarely in Buffett's camp: U.S.
tocks, he says, are stuck in a dinky range of long duration.
campora calls it a secular bear market and says these dismal
onditions could last another decade. But just as shorter, cyclical
ear markets occurred during the 1982-to-2000 boom—think
987 and 1994—so will cyclical bull markets happen in our day.
campora says today's market will rise 20% over the
ext 12 months. Then sink back. And so on.

Market timing seems to me to be a sucker's game, even if Brother Ralph makes a compelling case (and he does). The problem is that the market discounts all known information. Thus, swings that in Acampora's charts appear to fit a preordained pattern are, in fact, triggered by some event the market didn't see: a currency collapse, a terrorist attack, a palace coup.

If you see something that all the king's horses and men haven't spotted yet, then go ahead: Time the market. Otherwise, don't.

Time Prices. Now here's one I can buy into. Especially after I heard John Buckingham, who edits the *Prudent Speculator* newsletter, explain it. Markets may be efficient; not so, stock prices. Especially not small-cap stock prices. Big mutual funds don't touch them. Analysts have hardly a word to say. So the little stocks sit there, sometimes loved, often not. When they are not, Buckingham buys.

Buckingham is, by nature, a quant nerd. Fresh out of the University of Southern California, he was hired by the legendary Al Frank to automate Frank's analytic tools. Buckingham and Frank bonded, and by 1990 Buckingham had taken over editing the *Prudent Speculator*. Mark Hulbert ranks the newsletter as the best in the last 10 to 20 years. Al Frank died in 2002. If there is any risk here, it's that Al Frank is no longer around to counsel his protégé.

The formula remains Al Frank simple. Buckingham buys when the stocks trade at half or less than what he thinks they're worth. He sells at full value. In between, he holds them—often for years. Buckingham is not wedded solely to low P/Es. He also looks at price-to-book, price-to-cash flow, price-to-cash and debt. He couldn't care less about the quality of management inside his companies (how do you quantify that?) or about who will win U.S. presidential elections or whether hemlines are headed up or down. Buckingham plays the numbers. He is to stocks what Bill James is to baseball.

Buckingham is always long and always 100% invested in the market. His only hedge is breadth. His portfolio consists of 150 companies, from home builders to chipmakers. He admits that the bottom decile of his portfolio will lose 75%, which is why he cautions against single stock picks. Two years ago he put Apple Computer in his portfolio when cash represented 85% of Apple's share price. Apple has more than doubled. Today he likes ... well, I have to agree with Buckingham that giving a pick or two works against his strategy for diversity. You'll have to go to www.newsletters.forbes.com to find out.

Next year Forbes will host two investment cruises: one in February, along Mexico's west coast; another in June, in the Baltic. Learn more at www.investmentcruise.com. F

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informer@forbes.co

Or at Least a Blue One

A few years ago: Owen G. Fiore.

The new, inaugural northern California edition of *Super Lawyers* includes prominent San Jose estate and tax attorney Owen G. Fiore—under indictment since November 2003 on criminal charges of evading taxes on $1.5 million of personal income in the late 1990s. The trial of Fiore, 70, who pleaded not guilty, is set to begin Oct. 18. The legal luminary list, produced by Key Professional Media of Minneapolis, appeared as a stand-alone magazine mailed to 50,000 lawyers, in 132,000-circulation *San Francisco* magazine and also online. Stated criteria included "research on each nominee" and vetting by a "blue ribbon panel" of lawyers. Concedes Key executive William C. White, "A red flag should have gone up." —*Janet Novack and William P. Barrett*

Brokers of the Golden State: Unite!

Lawsuits against firms like Merrill Lynch and Morgan Stanley claim stockbrokers—paid an average $153,000 last year—are entitled under federal law to overtime. Mark Thierman, a Nevada labor lawyer behind the cases, says rules exempting higher-paid workers from O.T. don't apply to those on commission. Thierman, who has wrung settlements from Starbucks and Pacific Bell, seeks back pay and deducted expenses for workers in California. Firms deny liability. —*Daniel Fisher*

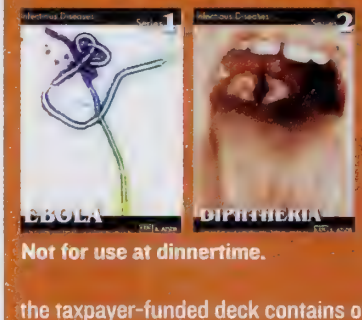
Keep Your Mouth Shut

Test subjects who were asked "How likely are you to floss your teeth in the next week?" increased their flossing. But when also told the question was being asked by the "Association of Dental Products Manufacturers," they decreased flossing despite its benefits, because of resentment over perceived manipulatio This research comes from marketing professors Patti Williar of Wharton, Gavan J. Fitzsimons of Duke's Fuqua School ar Lauren G. Block of Baruch College. Conclusion: "Very w meaning organizations may have serious and negative impa upon those they intend to help." —*Tatiana Seraf*

Hey, He Was an Adman—and a Lawyer

Mediaworks, a Studio City, Calif. maker of filmed ads owned attorney William Michael Roach, sought to deduct $295,000 claimed business expenses for a 42-foot Centurion yacht. An e tertaining U.S. Tax Court opinion detailed Roach's extensive u of the plushly appointed boat for West Coast racing, partyi and overnight traveling with friends and associates, then said didn't level with the firm's own tax preparer, the court or t feds in what became "an unreasonable application of the inte nal revenue laws." Upheld: $119,000 in extra taxes plus anoth $24,000 in "accuracy-related penalties." No comment fro Roach or his lawyer. —*J.N. and W.P.*

Trade You One Mumps for Two Measles



Not for use at dinnertime.

Fresh from putting faces of wanted Iraqi leaders on playing cards, the federal government is now out with a free downloadable set of baseball-trading-like cards depicting infectious diseases. Produced by the Centers for Disease Control, the taxpayer-funded deck contains often-graphic color pictures of persons displaying symptoms, along with descriptions. The illnesses include scary ones like HIV, Ebola and anthrax, along with more obscure ones like cyclosporiasis. —*Dirk Smillie*

And Enron Isn't Even on This List

From 1990 to 2003, a watchdog group says, just eight companies paid $3.5 billion in penalties, restitution, settlements and cleanup costs involving repeated claims of questionable corporate behavior. Much ado about long-ago little, firms say. —*T.S.*

COMPANY	CASES	PAYOUTS ($MIL)	EXAMPLE
General Electric	87	$990	**$460 million to clean up dumping in Hudson River**
Lockheed Martin	84	426	**$50 million to improve Los Angeles drinking water**
Boeing	50	379	**$62 million to finish allegation of defective helicopter parts**
Northrop Grumman	36	310	**$35 million toward purported overbilling on B-2 bomber**
Raytheon	31	157	**$13 million to settle claim of polluting Tucson drinking water**
United Technologies	23	215	**$151 million to wind up Pentagon procurement fraud charges**
General Motors	22	1,005	**$45 million to resolve allegations of excess Cadillac pollution**
Textron	21	25	**$18 million to end claim helicopter engines wore out too fast**

Source: Project on Government Ove

CANALI

By Stephen E. Flynn, Senior Fellow at the Council on Foreign Relations and author of *America the Vulnerable: How Our Government Is Failing to Protect Us From Terrorism.*

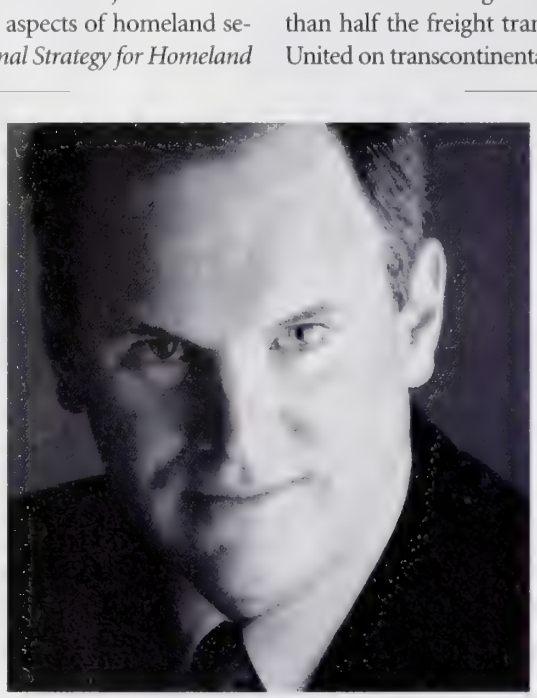
Terrorism and the Bottom Line

Worried or not, corporate executives won't protect our vital infrastructure without the right incentives.

MOST DISCUSSIONS OF TERRORISM BEGIN WITH THE QUESTION: "Is the government doing enough to prevent an attack on vital infrastructure like pipelines and ports?" I'd like to pose a different question: "Is the private sector doing enough to prevent those attacks?" I think the answer is no. And the reason is that no market incentive exists to do so.

Under President Bush, the federal government's job is national defense and border security. "For other aspects of homeland security," according to his July 2002 *National Strategy for Homeland Security*, "sufficient incentives exist in the private market to supply protection." So, with little fanfare, the government passed the buck on protecting the electrical grid, chemical plants, pipelines, trucks, cargo containers, refineries and port facilities to the private sector.

But the private sector is not reporting for homeland security duty. In a survey conducted by the Council on Competitiveness just one year after the Sept. 11 attacks, 92% of executives did not believe terrorists would target their companies, and only 53% said their firms had increased security spending between 2001 and 2002. In a more recent Deloitte & Touche survey, 75% of trucking firm executives said that security would not be a high priority over the next year.



"The problem is what economists call the 'tragedy of the commons.' An individual company's investment won't improve the public's well-being."

Why the gap between Washington's expectations and private industry action? Because executives worry that their security investments will put them at a business disadvantage with competitors and that those investments will not significantly reduce the likelihood of a terrorist attack and its consequences. The problem is what economists call the "tragedy of the commons." An individual company's investment won't improve the public's well-being.

Wal-Mart or Hewlett-Packard could spend $50 per container to import merchandise in a "smart" box outfitted with a tracking device and an intrusion alarm, which could be examined with a cargo scanner before it is placed on a ship. Hong Kong or Singapore could spend $50 million on equipment to monitor the tracking devices and to scan every container at the loading po However, if Wal-Mart or a port authority incur these additior costs, they risk undermining their profitability as long as oth companies and ports decide not to spend on these additior security measures. Who's going to pay extra for a sweatshirt th came in a terror-proof box?

What about cargo-scanning units for passenger airlines? Mo than half the freight transported by carriers like American ar United on transcontinental flights is not associated with passenge traveling on the planes and th not subject to the rigorous scree ing required for passenger baggag Scanning units, which look for m terials or mechanisms commor present in explosives, cost fro $800,000 to $1 million each and r quire costly delays. Struggling a lines can scarcely afford that sc of impact on their profit margir

The rational chief executi may toss and turn at night, co templating how vulnerable his se tor is to terrorist attacks. But wakes up each morning to face t bottom line.

The private sector needs come to grips with the two centr realities of our post-Sept. 11 wor First, it is the nonmilitary elemer of U.S. power—i.e., our econom engine and civil society—that pr vide the most likely targets for Qaeda. Second, a laissez-fai approach to critical infrastructure protecti is not working and will not work.

The market's exposure to profound disruption in the wa of the next attack will only be mitigated if everyone is playi by the same security rules. And the rules must be credible, whi means that government must be the final arbiter in the rul making and enforcement process. When standards are univers and mandatory, their cost is borne equally across sectors.

This private-public conversation needs to happen with wartime sense of urgency since it is not a question of if, b when, terrorists will again strike the valuable networks th underpin our way of life.

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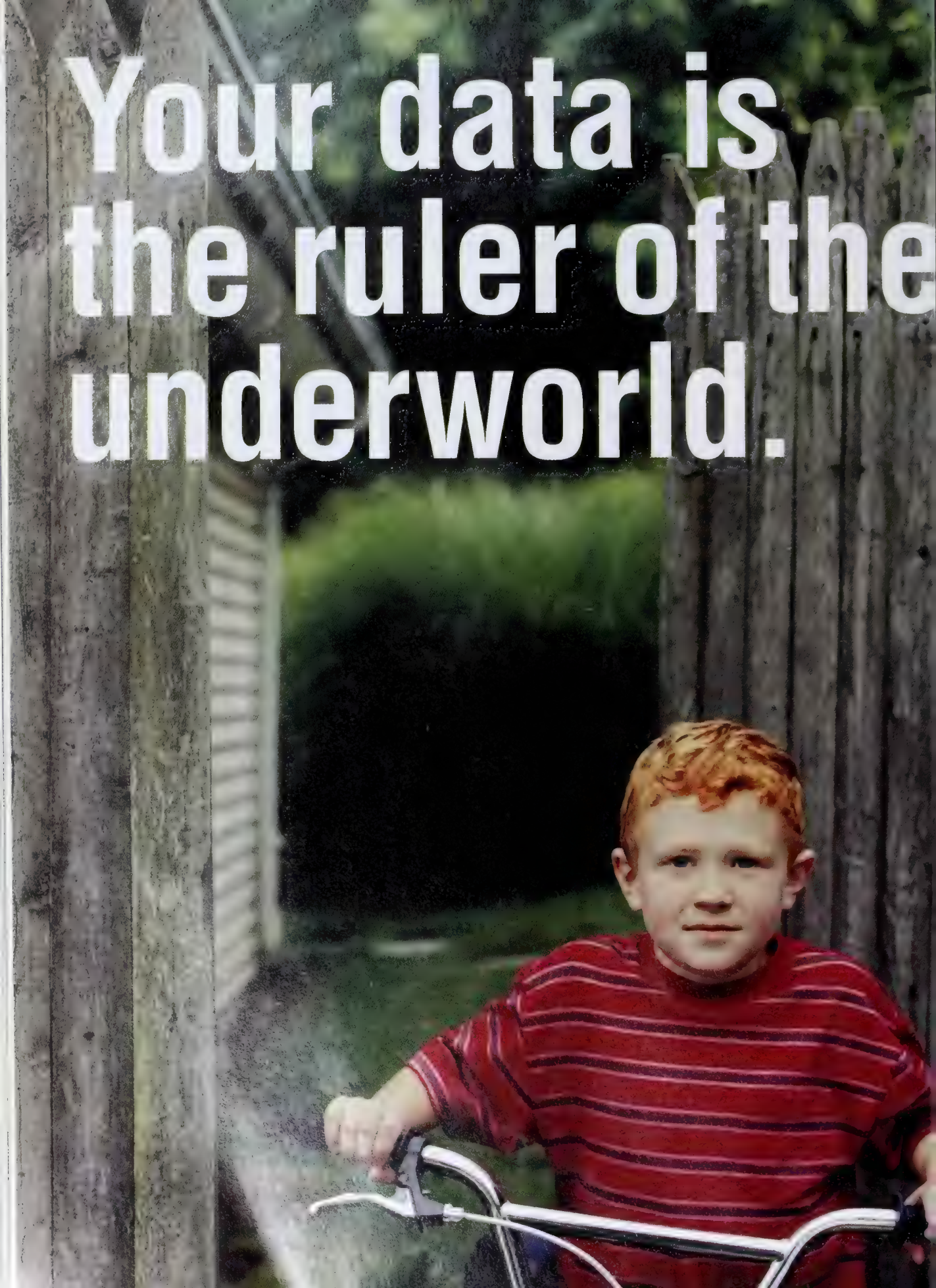
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JULY 26, 2004

When the Chips Are Down

In our July cover story about the challenges faced by Samsung, we noted that the Korean electronics giant was trying to jazz up its gadget image to better compete with the likes of Sony, Dell and Nokia. The first shoe has fallen. Eric Kim, a Korean-born American with no prior consumer-products marketing experience, left in September after five years to become vice president of sales and marketing at Intel. Kim says he wanted to return to the U.S. Earlier he made headlines in Japan when he told FORBES in 2001, in a most unhumble way, that he wanted Samsung to "beat" Sony in five years. Samsung higher-ups wrung their hands—Sony is also a customer—and reportedly reprimanded Kim for publicly baiting a customer. Likely successor Gregory Lee, a marketing exec with a pedigree that includes Johnson & Johnson, Procter & Gamble and Kellogg, will be expected to tug Samsung's brand up those last and most difficult notches. —*Heidi Brown*

FLASHBACKS

85 YEARS AGO IN FORBES | AUGUST 23, 1919

People to Politicians: Cut Taxes

The next uprising of the public will unquestionably be against reckless expenditures of public money and the consequent crushing taxation levies. The politicians, as a rule, have little regard for saving but a weakness for grandiose spending. The larger the "pork barrel," the happier they are. The public temper is rising to the point where it will boil over unless it is demonstrated convincingly that those in charge of our public affairs are striving with might and main to do away with wasteful methods and to curtail taxation to the lowest possible minimum.

10 YEARS AGO IN FORBES | OCTOBER 24, 1994

Tyson Troubles

Billionaire chicken king Don Tyson, of Springdale, Ark., figures that about a third of his food service firm customers (they account for 55% of Tyson's sales) will want a single supplier for all the center-of-the-plate proteins they buy—chicken, fish, pork, turkey and beef. Tyson wants to be that single supplier. He is already far and away the nation's largest chicken producer, with 18% of the market. But in most other protein sources, Tyson barely registers. Hence his strategy: acquire firms that are in those other foods and expand them aggressively through additional acquisitions, heavy capital investment and marketing. A sensible plan. But so far not a very well implemented one.

Tyson cut its earnings forecast for the fiscal year ending Oct. 2, citing weaker demand, higher raw material costs and hedging losses.

SEPTEMBER 1, 2003

Poisoned Wells?

A lot has happened since we raised questions about the curious success of Atlanta investment salesman Leo F. Wells and his ever-expanding Wells Real Estate Investment Trust, a "private REIT" whose shares aren't traded on exchanges. Shortly after our story appeared the National Association of Securities Dealers ruled that the Wells organization violated rules on noncash compensation by dishing up lavish meals, entertainment and other perquisites to brokers who sell the 7%-yielding shares of Wells REIT. Wells, who neither admitted nor denied the charges, stepped down as president of the broker-dealer.

Rents at the company's 25 million square feet of office property seem stable enough, but Wells has started up another REIT that has conflicts with the first. And though Wells delights in professing his distaste for debt, Wells REIT's last quarterly report shows he has ratcheted borrowings up, from $309 million a year ago to $823 million recently.

Investors have been redeeming at nearly three times the rate of a year ago. Wells announced in August that it would not honor any more such requests in 2004 except for those relating to the death of a stockholder. A few frustrated investors have turned to the over-the-counter "pink sheets" market to sell—for around $7 a share, down from the $10 they paid. Wells' chief financial officer says investors are still happy and that two-thirds of them reinvest their dividends in the company. —*Stephane Fitch*

JUNE 21, 2004

Not Up to the Test

Three months ago we detailed Chief Executive Loring Knoblauch's tough quest to turn around Underwriters Laboratories, the 110-year-old product-testing outfit known for its tiny UL logo. Tough indeed. In late June, soon after our story came out, he wrote to customers asking them to be patient and promising big changes in the year ahead. He wasn't kidding: On Aug. 31 Knoblauch, 62, announced his retirement, saying that he wanted to spend more time with his family. —*Brett Nelson*

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Scourge From Texas

Wyeth's managers once hoped to dispose of its fen-phen litigation for a mere $4.8 billion. That was before they met GEORGE FLEMING | BY DANIEL FISHER

HOUSTON LAWYER GEORGE FLEMING HAS BEEN SPENDing a lot of time in Philadelphia lately, preparing for trials against Redux manufacturer Wyeth that never seem to make it all the way to a verdict. "In the past six months I've put six juries in the box," says Fleming, relaxing in a hotel conference room across from the fortresslike Philadelphia Court of Common Pleas. "I'm tired of going to all the work of picking a jury, just to have Wyeth fold when they don't like what they see." Fleming's agreements ending the trials are secret; he can't even utter the word "settlement." But the smirk on his face indicates he's happy with the outcome.

And sanguine about his prospects. He has 8,500 lawsui pending against Wyeth claiming that the appetite suppressant fe phen, a combination of Wyeth's Redux (dexfenfluramine) an generic phentermine, caused heart problems. Some 12,000 fe phen lawsuits started going to trial in Philadelphia in July, two six cases per trial, five or six trials a month. Fleming tries to p his strongest cases in front of juries to win hefty verdicts that w drive up the value of the rest. He did that with great success 2000, winning a $29 million verdict in Oregon that led Wyeth

settle 600 of his cases for several hundred million dollars more (neither side will reveal exact amounts).

You're to be forgiven if you thought the fen-phen crisis was over. Two years after it first emerged in 1997, Wyeth officials told investors it would cost a maximum of $4.75 billion to fix. As of the second quarter of this year the company had reserved $16.6 billion for the problem. Thanks to guys like Fleming, it's a safe bet the costs will climb further.

Wyeth is trying to counter the lawyers by settling the most damaging cases—the ones with sympathetic, high-earning plaintiffs or strong evidence of heart damage on an echocardiogram—and pushing the weak ones in front of juries. The Madison, N.J. company has claimed some victories in this game so far. In July Philadelphia jurors dismissed three cases outright and awarded another group of five plaintiffs $4,000 in damages, total. Another plaintiff got $48,000, a tenth of the settlement Wyeth has been paying out in many such cases. And, as a sign of the thoroughness with which fen-phen claims are being examined, the FBI recently arrested 12 people in Mississippi on accusations of faking prescriptions in order to participate in a $400 million settlement of 1,200 claims the company negotiated to escape that judicial hellhole in 1999. "We're aggressively defending [against] the litigation, and we're pleased with the direction it has been going in the last several months," says William Ruane, Wyeth's associate general counsel.

Pleased? Wyeth spent $12 billion settling 50,000 lawsuits filed in the first phase of the litigation after it pulled Redux from the market. To settle the rest of the litigation, the company negotiated a $3.75 billion class action trust in 1999 (adjusted for inflation that's $4.75 billion). But 53,000 plaintiffs took advantage of Supreme Court rulings to opt out of the pact and pursue individual lawsuits instead.

The suits alleging primary pulmonary hypertension (PPH), a nearly always fatal condition, are the most valuable—the kind Fleming wants to tee up for trial. Wyeth lost a $1 billion jury verdict in plaintiff-friendly Beaumont, Tex. in April (it's appealing) and says it plans to settle most of the 75 or so remaining PPH lawsuits. But Fleming, with several PPH cases in his portfolio, is playing coy. "Don't my clients have a say in the matter?" he asks.

There's substance behind Fleming's bluff. A native of Texas City, Tex.—"Toxic City" to some because of its sprawling petrochemical plants—Fleming graduated from the University of Texas law school and spent five years as a trial attorney with the Justice Department in Washington before returning home to practice tort law. He specialized in airplane crashes; in the early 1990s he got a big piece of the litigation against Prudential Bache over fraudulent limited partnerships. Along the way Fleming became a master at targeting companies with thousands of individual lawsuits, in order to wrest larger settlements—and fees—than he might otherwise have won through a class action.

Fleming's biggest score came against U.S. Brass, which filed for bankruptcy in 1994 after a flood of lawsuits over defective plastic plumbing. Competing lawyers negotiated a $950 million settlement with outside suppliers of plastic resin, but Fleming held out for a separate peace, ending up with $170 million for his 37,000 clients. He and his cohorts ultimately were awarded $89 million of that under a complex interpretation of the settlement's total value. "The fee was unconscionable," says Houston lawyer Larry J. Doherty, now host of the syndicated TV show *Texas Justice*, who represented Fleming clients in an unsuccessful bid to reduce the fee.

When fen-phen was pulled from the market in 1997, Fleming was ready. Attorneys ran TV and radio ads recruiting clients, then referred them upstream to Fleming, who says he rejected 90% to find those with the strongest evidence of heart damage.

Even so, Fleming has been dogged by allegations he finessed the evidence to make clients look sicker than they are. "We have a lot of bogus claims," says Richard Scheff, a former federal prosecutor hired to oversee the process. In an audit of 44 claims that Fleming's firm submitted to the class action trust, 86% were rejected by a panel of cardiologists. The Wyeth trust filed a motion, still pending, to halt payment of all of Fleming's claims. The motion cites a sworn statement by echocardiogram technician Marti McCulloch that Fleming instructed her to use an incorrect technique for measuring atrial regurgitation, a key component of fen-phen claims. Fleming, whose firm paid for thousands of client echocardiograms at $250 a pop, says that McCulloch in a subsequent deposition retracted her claim that he had instructed technicians to perform them improperly. "The trust is running out of money to pay all the claims, so they created an adversarial situation," he says. In August Wyeth agreed to pay another $1.3 billion into a supplemental trust to handle the unexpectedly high number of claims.

Is it enough? With the opt-out cases, unlike the first round of lawsuits, Fleming is barred from seeking punitive damages. But he recently won a Third Circuit Court of Appeals ruling expanding his ability to present evidence that the company knew of problems with Redux before 1997, which jurors could interpret as a green light for higher damages. At $400,000 apiece, his 8,500 cases are worth $3.4 billion. Other lawyers have 44,500 more. And while the settlement terms bar plaintiffs from filing new cases, the trust promises to pay out benefits for heart-valve replacements and other treatments through 2015. Those claims are sure to rise as the 40-ish females who were Redux's core market age.

"I'm convinced this drug is going to keep a generation of cardiologists busy for a decade," Fleming says. Lawyers, too. F

MOUSE HUNT

After a 20-year run, embattled Disney Chief Michael Eisner cries uncle and will step down in two years. Let speculation about a successor—fanciful and otherwise—begin. Chances ranked on scale of 1 to 5 Mickeys.

—Peter Kafka and Seth Lubove

Barry Diller

Longtime Eisner rival, friend, still respected and feared in Hollywood executive suites. But he's busy trying to get Wall Street to buy into his Internet vision, called IAC/InterActiveCorp.

Peter Chernin

Unless he's suddenly adopted by Rupert Murdoch, News Corp.'s number two is unlikely to get the top slot there. But a new five-year contract makes it hard for him to go elsewhere.

Jeffrey Katzenberg

Sweet revenge for former number two? If his DreamWorks animation arm doesn't go public, Disney could buy back talents, and all of DreamWorks' assets, for $5 billion or so.

Robert Iger

As chief lieutenant, his years of faithful service to Eisner might get him the job. Or those years of faithful service may be exactly what doesn't get him the job.

Steve Jobs

His Pixar animators already provide big hits for Disney. But he's taken an Eisneresque attitude toward grooming his own successor at Apple Computer.

Les Moonves/ Tom Freston

At least one of the two Viacom hotshots will be looking for work after octogenarian Chief Executive Sumner Redstone picks his successor.

Haim Saban

Billionaire dealmaker got Disney to buy Family Channel for a laughably high $5.2 billion in 2001. It's only right that he come back and fix the mess the acquisition created.

Michael Ovitz

Revenge, Version 2. Knows his way around Disney HQ, has lots of free time. That $140 million sendoff he got after an awful year under Eisner would be forgotten.

Your Tax Dollars at Work

Why are phone bills so high? To fund all sorts of worthy programs | BY SCOTT WOOLLEY

PRETENDING TO BE DEAF, CRIMINALS IN OTHER countries log on to Web sites that connect them with American phone operators. The operators are there to let hearing-impaired Americans make phone calls by relaying their typed messages orally. The crooks have the operators request big purchases—ranging from often expensive electronics to bulk orders of Bibles—and pay with stolen credit cards. The loot is shipped abroad. Suspicious or not, the operators are required by law to keep the calls private.

The crooked calls are free—paid for by a tax on phone service that funds assistance for the deaf. The program cost $171 million in 2003, and in July the nonprofit group that administers the service, the National Exchange Carrier Association, won a 69% increase in the tax rate to cover the costs of a quadrupling of demand for the free Internet service last year to 40 million minutes. According to the fund's records,

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only a small fraction of that jump can be explained by the switching of actual deaf people to the Web from the specialized "text telephones" they traditionally use to contact the operators. The only explanation seems to be that fraud is driving the huge surge in volume.

The deaf relay tax (currently 0.36% of $80.4 billion in long-distance charges) is just one of the little taxes that have been slipped into telecom rates to fund various programs. Another is "E-rate," passed in 1996 to pay for Internet access for the nation's schools and libraries. This year Congress looked into the program and turned up kickbacks, bid-rigging and waste on a grand scale. In Puerto Rico investigators discovered piles of wireless networking cards sitting on a loading dock in a warehouse. They had been purchased in 1999 at a cost of $23 million and never used. The program disburses $2.3 billion per year, using money coming mainly from taxes on cellular and long-distance bills.

Investigators looking into one $4.5 billion program found bid rigging, kickbacks and waste on a grand scale.

Says Representative James Greenwood (R–Pa.), who chaired the committee investigating the problems, "If one were to design a program to pour money out the window, this would be the way to do it."

The Universal Service Fund, the widest-reaching federal phone tax at 9% of long-distance revenue, spends $3.3 billion a year to subsidize high-cost (rural) lines. In remote areas the subvention would best be directed to wireless service, but wireless carriers are almost never eligible. The loot goes into old-fashioned copper instead.

Regardless, demand for the universal service money is steadily increasing. To solve this problem the Federal Communications Commission and Congress are considering a tax increase. F

Et Tu, Nathan?

Former Microsoft honcho Nathan Myhrvold enforces patents against alleged infringers—like Microsoft.

BY TOMAS KELLNER

DURING HIS 13 YEARS AT MICROSOFT NATHAN MYHRVOLD, CHIEF TECHNOLogy officer, helped develop the Windows operating system and opened the Microsoft Research labs. In 1999, when he left to "spend time in Montana digging up dinosaurs," he was worth $650 million in Microsoft stock and earned a spot on The Forbes 400 list of the richest Americans.

Myhrvold has a new business these days—aiding patent challenges against companies, including his old employer. His firm, called ThinkFire, is a licensing gun for hire, helping clients assert rights to their intellectual property. In just three years ThinkFire has engaged $350 million in licensing deals for such clients as Lucent, Hewlett-Packard, Cisco Systems, Ciena, NEC and a dozen others. ThinkFire generally works on a contingency fee, keeping a quarter of the royalties it reaps.

So are Myhrvold and other patent firms that have popped up in recent years stifling innovation? "The way the world works, there could well be somebody making tremendous amounts of money off your idea," says Myhrvold, who has his name on 17 Microsoft patents. "If they are—well, damn, it's worth asking for some."

Myhrvold put up $1.5 million to start ThinkFire in 2001. It's gotten another $17 million in financing from Charles River Partners and Madrona Capital. Former executives of other big corporations staff the firm. Cofounder and Chief Executive Daniel McCurdy used to run Lucent's $500 million-a-year patent-licensing business. General counsel Thomas Reynolds was Intel's director of patents.

Patent litigation that goes to trial is expensive, costing $2.5 million on average, and usually takes years, says Bruce Berman, president of Brody Berman Associates, a Manhattan intellectual property consultancy. As a result, only 3 of every 100 patent suits reach trial. The rest are resolved through settlements or licensing negotiations, the kind ThinkFire offers. "Licensing is not a bad thing," Myhrvold says. "It's not like something you should be ashamed of."

ThinkFire is involved in one nasty case with Microsoft. In late 2002 client Lucent Technologies charged that Windows violated its patents and sued Microsoft customers.

Stifling innovation? No way, says Myhrvold.

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Gateway and Dell for including the software with their machines. ThinkFire handled the Microsoft end of the case, suggesting Microsoft may have violated 16 Lucent patents affecting $9 billion in Microsoft sales. (Myhrvold is not personally involved.) Microsoft is challenging the validity of the patents. The case is in federal court.

Another ThinkFire client is Hewlett-Packard, which last year launched an effort to wring more money out of its 21,000 patents. ThinkFire read every one of HP's patents over six months. It ranked them by criteria such as ability to detect infringement in products; impact on past, current and future products; and the possibility that the same technology was invented simultaneously by someone else.

ThinkFire buys and guts products that pop up as suspected violations and photographs the infringing parts. Joe W. Beyers, who's in charge of Hewlett-Packard's patent portfolio (and inventor of the 32-bit computer chip), says that in just 18 months HP's royalty income doubled. (He won't disclose the dollar amount.)

Gregory Aharonian, a patent consultant, complains that companies often exploit bad patents "as a fairly nasty weapon" to extort licensing deals. Responds Myhrvold: "ThinkFire is about 'Let's use this thing as widely as possible, and we'd like to be paid.' It's not about locking it up."

WHO YOU GONNA BELIEVE?

The hedge fund industry took a shellacking in the second quarter in terms of new investments. Hmm ... or did it? Two big hedge fund tracking services recently put out widely varying stats on second-quarter investments, so wide you've got to wonder if anyone knows anything certain about this largely unregulated and secretive industry. Hedge Fund Research of Chicago estimated that investors put only $7.5 billion into hedge funds during 2004's second quarter, down from $22.2 billion in the quarter prior. Two weeks later Tremont's Tass Research in Rye, N.Y. estimated that investors sent a record $43.3 billion to hedge fund managers in the second quarter, up $5.1 billion.

"We're right, they're wrong," says Tass Co-Chief Executive Robert Schulman. Nope, it's the other way around, says Joshua Rosenberg, president of HFR.

The disparity is especially odd given that both firms gather data from the 5,000 largest hedge funds, so they're bound to be getting information from many of the same money managers. Gosh, they wouldn't report different numbers, would they?

For the record, both firms say that overall industry assets total $870 billion, give or take a few hundred million.

—Michael Maiello

OVERTIME GAME

Every fall "football widows" lose their husbands on weekends to the televised action on the football field. This year husbands in the Dallas area might not be back by Monday morning. The Cowboys launched the Dallas Cowboys Channel with Comcast last month, which promises 24-hour coverage of the team seven days a week in 1.3 million homes. It will broadcast behind-the-scenes interviews, press conferences and call-in shows featuring players, coaches and, of course, the Dallas Cowboys Cheerleaders. The National Football League's national TV contract prevents the team from broadcasting regular-season games.

The Cowboys are following the lead of the Atlanta Falcons and the NFL itself, both of which launched networks in the past year. And next year the Tampa Bay Buccaneers will also launch a channel; several other teams are exploring the idea, too.

The new channels are as much about brand-building as making money. The Cowboys' network, for instance, should yield $5 million a year for the team compared with the $81 million they receive for their share of the league's national TV contract. The team's total revenues topped $200 million last year. "The Cowboys are prime television content in Texas," says Salvatore Galatioto, a sports industry adviser at Lehman Brothers. "This network helps build their brand."

The NFL's network operates on a bigger scale. The league invested $100 million to start the NFL Network, which now has 22 million subscribers, and revenues should hit at least $100 million next year. If there's a football saturation point, it hasn't been reached yet. *—Kurt Badenhausen*

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Free Fall

Struggling Six Flags should have gotten a clue from its quiet competitor, Viacom | BY BRETT NELSON

SIX FLAGS HAS HAD A ROUGH RIDE. AT A RECENT $5.80 the stock is off 86% from its peak, in 1999. Bill Gates and Washington Redskins owner Dan Snyder, both with big stakes, have griped in public filings about the lousy performance. Plaguing Chief Executive Kieran Burke: bad weather, sagging park attendance and $2.1 billion of debt (on $878 million in equity).

One other thing: mismanagement. Fact is, not all regional amusement park operators are in such pain (Disney and Universal are "destination" parks, where visitors spend a block of days).

A perfect example is Paramount Parks, owned by Viacom, where attendance was up 16% last quarter versus a 4% decline at Six Flags. And this year Paramount's ten properties, including water parks, should throw off about 20% more operating income (in the sense of earnings before depreciation, interest and taxes) per park than Six Flags' 31 sites will.

At the helm of Six Flags and its predecessor since 1989, Burke borrowed billions to buy parks and build harrowing rides. Total attendance grew, fueled by acquisitions, but industry insiders say Six Flags had problems attracting fresh faces beyond its core group of repeat visitors. That spelled trouble because the closer a park's fortunes ar tied to repeat business, the more vulnerable it is when those cus tomers eventually tire of the rides or trim their budgets. As th economy slumped, profits vanished: Six Flags hasn't mad money since 1998.

Paramount faced a similar problem, but its numbers picke up in the last two years after the company made some com monsense adjustments. First step: Paramount scaled back o late-season discounts; an internal study in 2002 showed tha patrons planned their trips a the beginning of the summe so those special offers accom plished nothing but cuttin the gate receipts. Next it tar geted a new demographic Most customers buy a one day pass for around $27. (Th list price is more like $45, bu with all the discounts avail able, only fools pay it.) Seaso passes, a Six Flags favorit fetch around $65 apiece. Para mount's offer: Pay full pric for a one-day pass and get tw visits. The aim: to woo penny pinchers, especially youn families, and boost the pe centage of new customers.

No Walk in the Park

324 million Total attendance at U.S. amusement parks in 2003.

16% Increase in attendance at Paramount parks in the second quarter ended June 30.

4% Decrease in attendance at Six Flags in the second quarter ended June 30.

0.7% Compound annual growth in attendance industrywide from 2002 to 2006 (estimated).

Sources: Company reports; Credit Suisse First Boston.

Paramount also did a bette job hyping its brands to get family traffic. In 2000 it adde "Nickelodeon Central" areas (based on cartoons from the pop ular kids' cable network) with smaller rides and parades starrin life-size characters from the Rugrats series. Six Flags, while it ha Bugs Bunny World, never bothered to exploit its ability to licens newer Warner Bros. franchises Harry Potter and Lord of th Rings to jazz up its rides.

Paramount kept an eye on capital spending, too. In 2000 spent $4 million in cap-ex per park versus $9 million at S Flags. Paramount still spends that much, thanks to smart mov like getting $2.5 million worth of movie sets for its new Tom Raider ride in Cincinnati for $185,000. Meantime Burke has ha to slash his budget for new coasters to pare down debt. H declined to comment.

Kimberly Noland, director of high-yield research at Gimm Credit Publications, figures Six Flags needs $335 million in ope ating income in 2005—a 25% increase over this year's estimate $270 million—just to cover $125 million of capital spendi and $210 million of interest and dividends on preferred stoc Even at a 33% discount to book, Six Flags may still be on i scary descent.

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SHOCKED

Who knew that greedy taxpayers would try to take advantage of a big loophole? Apparently not the IRS.

One of the best freebies in the tax code is a provision, passed in 1997, that lets folks exclude $250,000 ($500,000 per couple) of capital gains from tax when they sell their principal residence, provided they've lived in it for two of the past five years. Those who don't meet the two-year test can claim a pro rata share of the exclusion if forced to move by health, a job change or "unforeseen circumstances." What might that be? In December 2002 the Internal Revenue Service proposed defining it as an event you didn't anticipate before buying and occupying the residence. Sounds like a definition you could drive a mobile home through. So taxpayers tried.

Callers started asking the IRS if they could get a partial gains exclusion because their houses had—unexpectedly—skyrocketed in value. Others wondered about big raises, or if they should win the lottery. And those who asked are the compliant folks; one can only imagine the justifications given by taxpayers who simply claimed the exclusion.

"We thought, gee, they are thinking along the wrong lines here," says an IRS official. "We want to discourage this." So in August, seven years after the law was passed, the IRS came out with final rules redefining "unforeseen" as an event you could not "reasonably" have anticipated. Death, job loss, divorce, multiple births and a broken marriage engagement all qualify for the break. Also eligible—and this comes from a real call to the IRS—is a police officer forced to move from his no-pet condo when he was assigned to a canine unit.

But the IRS shot down taxpayer pleas to count marriage and adoption, and made clear that an improvement in financial circumstances does not qualify. —*Ashlea Ebeling*

Debt Wish

You can eliminate your debts without paying them off. If you don't mind the possibility of going to jail, that is | BY SETH LUBOVE

IF IT WERE ONLY SO. WEB SITES ARE PROLIFERATING THAT promise they can wipe off your credit card debt, your mortgage and even your car loan. And if you're feeling guilty about doing it, they give you plenty of justification: The banking system is a fraud, they say, the Federal Reserve is a sham, and the American dollar is worthless paper.

This is the parallel universe of the debt "elimination" industry, where your debts are suddenly your assets, and the lender instead owes *you*. All for an upfront fee of up to $7,500.

No one tracks how much debt may have been wiped clean, but there's no shortage of susceptible suckers, judging from numerous Internet sites with such colorful titles as Eliminatemortgages.com, Goodbyemortgage.com and Mortgageelimination.net. The victims are the banks, title companies and lenders who have to endure the costly nuisance of hiring lawyers to clean up the paperwork mess. Individuals who bite typically lose their fee and maybe have to hire a lawyer to get them out of any legal backlash. The U.S. Comptroller of the Currency last year alerted lenders to seven firms it accused of promoting "fictitious debt elimination schemes" and passing off bogus documents to banks, mortgage companies, credit card outfits and retailers.

"With just a few forged or nonforged forms, they can cause thousands of dollars of trouble for lenders," says attorney Stuart Wolfe of Irvine, Calif.'s Wolfe & Wyman, who represents creditors. One method involves taking advantage of a little-known regulation that requires lenders to investigate and respond to any questions from borrowers. If the lender bungles any of the blizzard of questions typically sent in by one of these promoters, or doesn't respond within a limited time, the lender could be

liable to the borrower for damages.

In a case filed against debt elimination promoter Barnett Associates by Minnesota Attorney General Michael Hatch, th scheme mostly involved doing nothing for customers aft pocketing the $7,500 fee. The state won a judgment in Augu against Barnett, forcing the firm, which has since gone bank rupt, to pay $4 million in restitution.

James Krage, who runs Stopbankfraud (*"The banks lied you & stole your money!"*), says the system he sells involves ge ting bank officers to admit on depositions that they someho "lied" about the promissory note backing a mortgage. "We hav proven fraud on the bank," he asserts in a conference call with woman who says she handles the debt elimination.

"I wish you well, because you've hit a hornet's nest," th woman says darkly, in between offering up conspiracy theori about the Kennedy assassination, Sept. 11 and the Lindberg baby kidnapping. If you have to deal with folks like these, prob ably better to keep your debt.

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Having Yours

A party group called Cake tries to turn a dubious social trend into a profit center.

BY PATRICIA HUANG

TO ALL THE GIRLS NEXT DOOR WHO HAVE EVER BEEN tempted to strip in a nightclub, dance in their unmentionables or watch soft porn with strangers: Cake wants you. This risqué members-only group, founded in New York and now expanding in London and beyond, holds monthly soirées where women can shed their inhibitions. The best part: Men get in by special invite only.

Cake had a fourth-birthday party in August, a randy affair that drew 550 people, many of them in lacy lingerie. Nina Gotlieb, 26, showed up in a flimsy white tank top and a medley of black: panties, garter belt, thigh-highs. "I would never get to dress like this anywhere else. I've never seen an environment like this, where you're not made to feel like a pervert or a slut," she says.

The group was started by two sassy women and one party-prone man. Emily Kramer, 26, and Melinda Gallagher, 31, got to talking about what a shame it was that women couldn't be freer and more comfortable with their desires without having to fend off some lounge lizard. They turned to Matthew Kramer, 33, Emily's brother and Melinda's longtime live-in beau, who stages big bashes for such clients as *Maxim*, the unrepentantly male magazine. They pored over a copy of Hugh Hefner's 1962 credo, "The Playboy Philosophy," for tips on how to create—and brand—a sexual revolution. The Cake party was born: a ribald affair where women rule and men are thankful.

Now Cake aims to transform itself from a social fad into "the premiere sexuality brand for women." A Cake "guide to women's sexual empowerment" is due next year from Simon & Schuster's Atria imprint. Working title: *It's My Party*. A reality TV pilot—*The Pleasure Club*—financed by the Showtime cable channel, was produced in January: Nine women explore paths to sexual enlightenment as they lounge in hot tubs, shop for outfits and flirt at Cake parties. Showtime passed on the pilot, and Cake is now shopping it around to other networks.

"A lot of entertainment for women is insulting," says Gallagher, who has a master's degree in human sexuality from New York University. "We feel sexuality should be celebrated and integrated into a lifestyle. It doesn't just have to be about a gay man stripping on stage one night before you get married."

Nearly 2,000 women now pay $100 a year for the female-only membership. Forty more join each month, after filling out a required online essay. At cakenyc.com the trio takes in $100,000 a year (of $500,000 total) selling apparel, accessories and Cake-approved items (like vibrators), which come in white bakery boxes tied with red-and-white string.

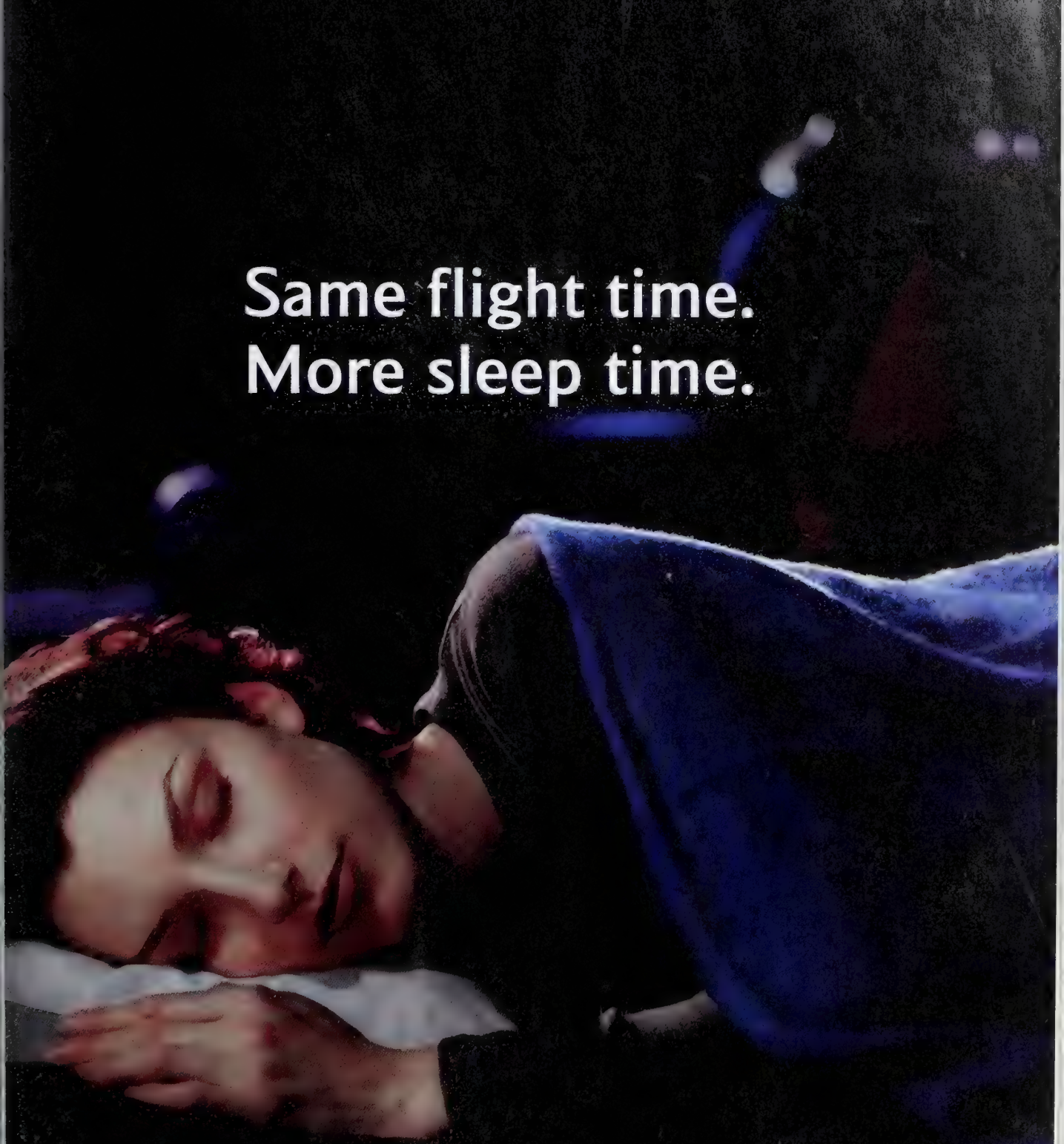
Ménage à trois, business-style: Emily Kramer, Melinda Gallagher and Matthew Kramer at a party in August.

Next on the agenda: a Cake nightclub as permanent base for like-minded members. The partners have raised almost $1 million and plan to open the club in New York in the spring. They say branches in Miami, Los Angeles and Las Vegas could come later.

But even the hottest hot spots must constantly reinvent themselves. "It's a fragile, precarious environment that you put yourself in," says one Cake investor, Joshua Siegel, a financier who may fund up to $800,000 of the club's startup costs. "The most fickle crowd in New York is the bottle service crowd; it likes a club for about two minutes."

In the Internet bubble, Cake's dot-com site might have been worth millions, as a "community of value." But now? Value is a function of cash flow. While Cake is currently cash-flow positive, it doesn't have enough to reinvest in the club without significant help from outside investors.

Matthew Kramer, the male amid it all, says his job is less sexy than you'd think. "At the end of the day I am still working with my girlfriend and my sister," he says, "so I'm not living some Hefnerian swinging-on-Viagra-in-my-mansion dream." F



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Forbes
OCTOBER 4, 2004

AMONG THE MANY things that surprised Michael Jordan when he arrived at troubled tech giant EDS last year was a deep and puzzling irony: EDS invented the business of outsourcing, overhauling other firms' computer systems and running them far more efficiently, yet its own internal network was a haphazard and disjointed mess. "My PC remote access—I've never seen anything that bad," Jordan, 68, says.

It was indicative of the state of the entire $20 billion company—chaotic and diffuse. "It was a holding company. It was 2,000 separate companies with a financial overlay to it." Big accounts were called on by up to 22 different EDS departments. The firm was losing big deals to competitors because it couldn't price them right and was entering into contracts that couldn't possibly turn a profit. "To say I was shocked would be a mild understatement," Jordan says.

It was a humiliating turn for Electronic Data Systems, the Plano, Tex. giant founded in 1962 by tough-talking Navy veteran H. Ross Perot and run like a paramilitary organization until he sold EDS to General Motors in 1984. It had grown into an unwieldy monster by the time GM spun it off in 1996. It has been trying to recover, in fits and starts, ever since. A four-year stint by Richard H. Brown, a former Cable & Wireless chief who was the first outsider ever to run EDS, started strong in 1999 but ended poorly: EDS' stock price was at $45 when he arrived, then rose to $68 before falling to $15 by the time he left.

And in came Michael Jordan. "I knew this company, and I knew the founders. This was the Marine Corps," says Jordan, a former Navy officer. "But when I came here it was the Girl Scouts."

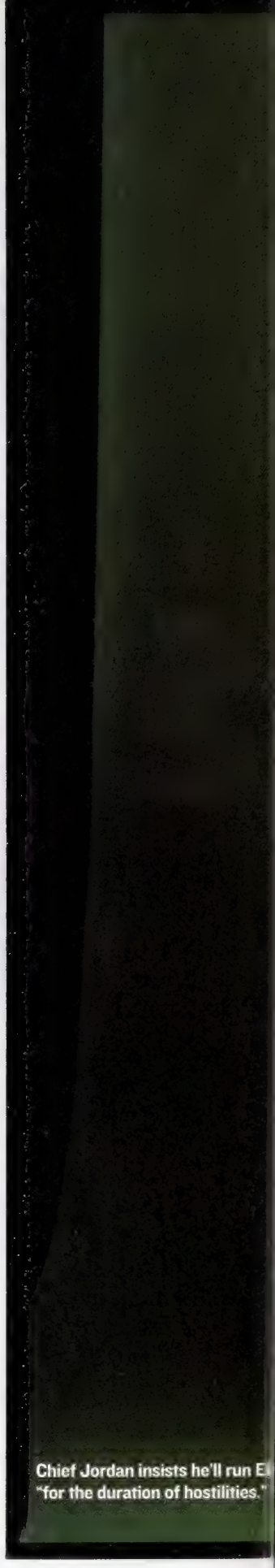
He came to EDS' attention through former PepsiCo chief Roger Enrico, an EDS board member who had known Jordan since the 1980s, when Jordan ran Pepsi's Frito-Lay unit. Jordan was in a restless retirement. He got his knees replaced. He was writing a mystery novel. He was bored. "We needed adult supervision quickly," Enrico says. EDS needed stronger strategy, "and if there's one thing you think of when you think of Jordan, it's strategic thinking," he says.

Jordan hadn't run a big tech company before and knew little about outsourcing, so the board also brought back a 35-year EDS veteran, Jeffrey Heller, as president and chief operating officer. They are 18 months into this mission to turn around EDS. Jordan vows to cut $3 billion in annual costs in the next 30 months and ax up to 20,000 of EDS' 124,000 jobs; another 20,000 programmers are retraining to gain sexier skills. An overhaul of EDS' tangled networks is under way, and EDS now promises it can do the same for customers, invoking cultlike phrases such as "the transformation" and plying a new theme: "The Agile Enterprise."

"EDS is doing the right stuff, but I just don't know that the market will give them time," says Julie Giera, an analyst at Forrester Research. "They've spent a year looking at their belly button. Now they have to perform."

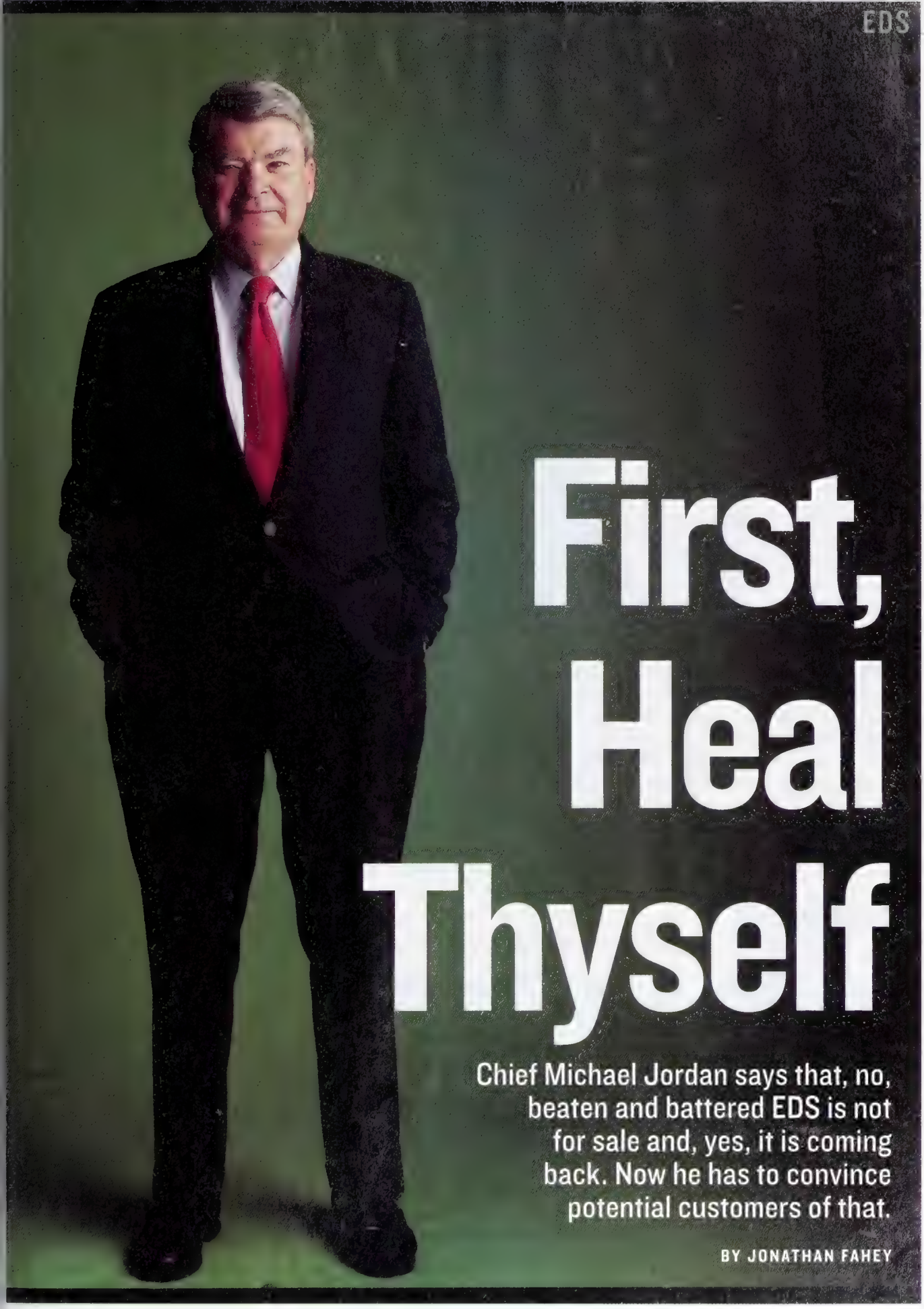
Then again, maybe Jordan will just sell. He made his name as a turnaround artist by chopping up a hemorrhaging Westinghouse in the mid-1990s. He fired 23% of the work force, had the company buy CBS, then ditched the old Westinghouse and stayed with CBS, retiring at year-end 1998. Now some say Jordan may sell out again. (Possible bidders: IBM, Hewlett-Packard, Accenture.)

Jordan insists EDS isn't for sale, but its feeble state further fuels the takeover rumors. EDS will eke out a profit of only $150 million—or less—on $21 billion in sales this year. In three years it has earned only $781 million total—a mere 1.2% of revenue. EDS' stock price, since GM spun it off, is down 60%—while the S&P 500 is up 66% in the same period. Since 2001 the firm's revenue has grown at an average of only 1% a year. For the 12 months ending in June EDS was awarded just 5% of outsourcing contracts valued at more than $500 million, compared with 21% for the same period last year, according to



MICHAEL O'BRIEN FOR FORBES

Chief Jordan insists he'll run E
"for the duration of hostilities."



First, Heal Thyself

Chief Michael Jordan says that, no, beaten and battered EDS is not for sale and, yes, it is coming back. Now he has to convince potential customers of that.

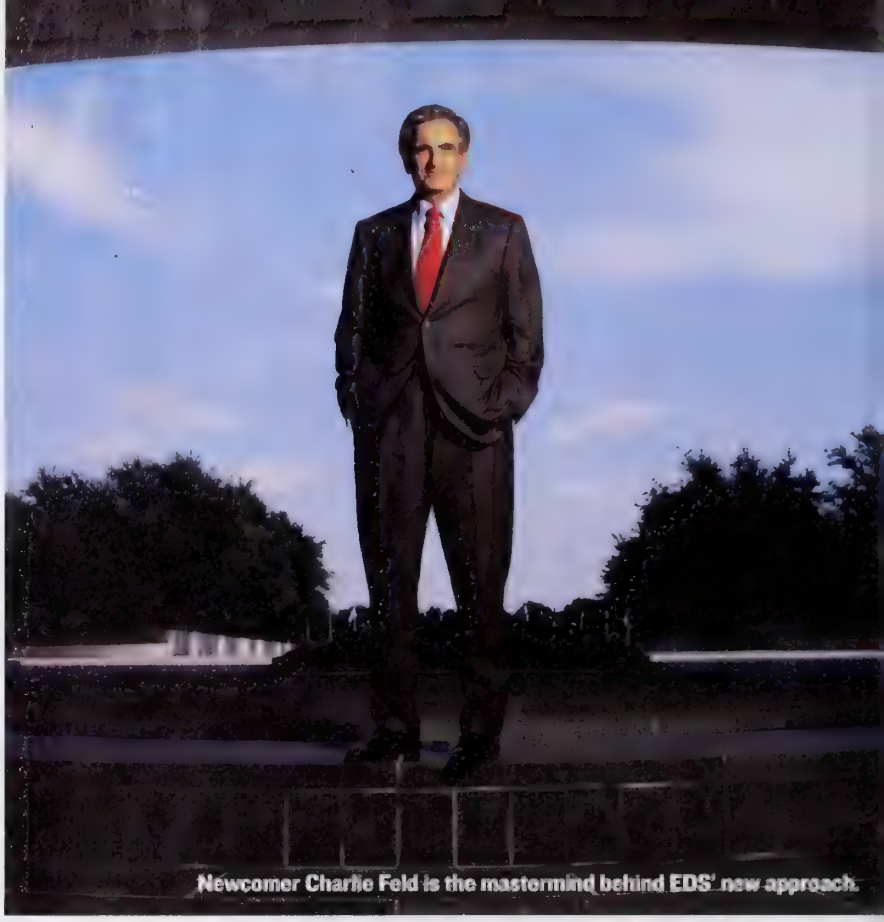
BY JONATHAN FAHEY

Rod Bourgeois of Sanford C. Bernstein. In July came a stinging insult: EDS' debt rating was downgraded to junk-bond levels.

All of which makes some customers wary. The Phoenix Companies in Hartford, Conn. just signed a $122 million contract with EDS, but only after some fretting. "There was a lot of concern about EDS," says Robert St. Germain, a Phoenix vice president. "We were afraid of someone buying them out." Rival salesmen come calling saying "EDS is a junk company," says EDS' chief financial officer, Robert Swan. "We have to spend a lot of touch time with customers," he adds, "to educate them in a more proactive manner."

But EDS is showing signs of emerging from a dark era. In July it said its trickling pipeline of new work jumped by 25%, including a $1.1 billion expansion of a deal with Bank of America to build and run a network that will connect 180,000 employees, 5,700 retail branches and 16,500 ATMs. The company also has bailed out of a contract with Dow Chemical that will cost EDS $260 million this year.

By next year another bad deal, a Navy contract that has racked up red ink of $1.1 billion for EDS, will hit break-even. Earnings met Wall Street estimates in the second quarter, and the stock rallied to a recent $20. And from just $250 million in cash and a massive $5 billion in net debt in September 2002, EDS is on track to have $3.7 billion in cash and no net debt by year's end. (Another sign of setting it up for sale? No, EDS brass insists.)



Newcomer Charlie Feld is the mastermind behind EDS' new approach.

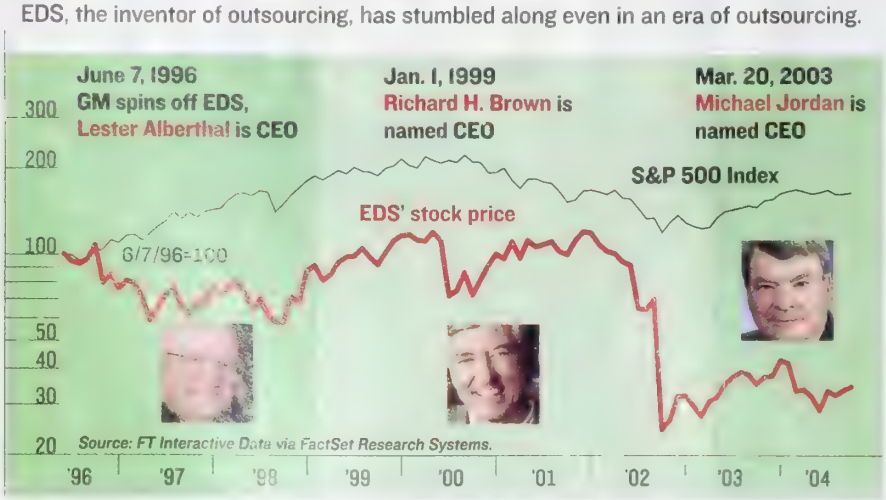
Those steps treat the visible wounds. Jordan also is beginning to make progress in taming the internal chaos at EDS, affecting everything from the languages its programmers use to how it sells products. When he arrived in March 2003, each client account team at EDS operated as its own fiefdom, developing systems and using whatever technology it thought best. EDS used 137 different billing systems; it was erecting 20 different mobile computing systems for clients. Only 25% of its own employees used the desktop PC the company recommended. EDS was suffocating under the massive cost of supporting so many distinct and divergent technologies; the inefficiency boosted its costs by 20%, it says.

What a coincidence: The painful process EDS is enduring is what it also offers to companies around the world. For decades businesses have updated their computer networks by bolting fancy features like interactive Web sites onto old, brittle networks cluttered with arcane code. All the while, EDS has made a business of persuading companies to let its legions of geeks, fluent in all those old languages, run the systems.

But in the next decade, EDS hopes, it will win work ripping out old, rigid technology and replacing it with something more modern, flexible, easily linked and cheaper to run. That, at least, is the marketing pitch. "The first 40 years of IT has been a science fair project," says Charlie S. Feld, the wizard hired by Jordan to help remake EDS and its services. "You can outsource and run the hairball cheaper, but until you unwind the hairball you can't take broader business costs out."

Undersourced

EDS, the inventor of outsourcing, has stumbled along even in an era of outsourcing.



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Feld is particularly controversial inside EDS. He had run technology under Jordan when they both were at Frito-Lay in the 1980s, and Feld had gone on to start a small consulting shop. Jordan asked him to help figure out where EDS should go. Feld's answer: Companies must transform their archaic systems, and EDS' ranks of techies can do it.

Jordan liked Feld's vision so much that EDS bought Feld's firm early this year for an eyebrow-raising $89 million, installing former Feld Group consultants in several EDS posts. The rank and file bristled initially at Feld's 60-person boutique occupying the highest echelons of a $20 billion icon. Logos that morphed EDS into (F)E(L)DS circulated among employees.

Feld is now in charge of designing EDS' products and services. Jordan is cutting costs: $1 billion through better purchasing, $1 billion through better capacity utilization in its data centers and server farms and $1 billion from lower labor costs after layoffs. To do it EDS is pushing thousands of jobs offshore to handle human resources and finance and accounting. In May EDS opened an office in Budapest that will perform finance and accounting tasks for EDS operations in 17 countries. EDS moved the help desk that services its own employees to India, cutting $30 million, or 42% of that cost.

Jordan also expanded alliances with Microsoft, Sun Microsystems, Cisco, Dell and EMC. EDS can now consolidate purchasing and get better prices, for itself and for customers. By making its systems uniform (all workers now use the same model of PC), EDS aims to cut 100 data centers to 80. The 225 locations that perform payroll tasks and other processes for clients will be cut to 180.

As part of the overhaul 90,000 technicians will be asked, in letters sent in la September, to learn new skills by takir classes on an accompanying compa disc—and still may face dismissal. By th end of 2005, when EDS plans to be up an running on its new computer platform, hopes 20,000 workers will have "r skilled" themselves. If a worker picks th right skill for what EDS ultimately need he or she will be able to keep a job.

EDS has completed an overhaul of th sales force. In the past, sales reps designe products and services based on what th customer wanted, without consulting th technicians who were going to do th work. That led to pricing and time-fran terms the technicians couldn't meet. Th gap grew out of EDS' heritage of pampe ing clients at most any cost. "We'd tal whatever you want and then we'd ju pummel our delivery organization an say: 'Do it for cheaper,'" says Steve Schuckenbrock, a former Feld Grou consultant who runs EDS sales. Today h says, "If you tell me now you want to cu tomize, it will cost more, not less."

Also, sales executives previously we compensated on the value of a contra and the profit that EDS predicted it woul make on the deal the day it was signe Those predictions were often wildly opt mistic. Now a team of four executives, re resenting sales and technical department responds to each client. Sales executiv are paid only a portion of their commi sions up front. The rest comes later, long as the deal stays profitable for EDS.

Jordan admits he still has a long w to go to get the company acting as on Every week a group of 25 to 30 executiv come to Plano for a weeklong seminar c the new EDS, taught by Jordan, Helle Feld and other managers.

But as promising as EDS' transform tion idea sounds, it has yet to sell it to single customer on the whole new pac age. Schuckenbrock responds that EDS' 6 biggest accounts, providing 70% of pro its, are all it needs. "If I can just get 50 of them to play, this business is healt for a long, long time." The bad news: ED competition—IBM, Hewlett-Packard ar Accenture and still others—are out sellir a similar vision and gleefully pointing o EDS' internal flaws.

Jordan's Other Troubles

As Michael Jordan struggles to clean up EDS' internal mess, the company also faces uncertainty in three touchy areas of accounting.

NAVY CONTRACT The Securities & Exchange Commission continues to study EDS' accounting for its $6.9 billion Navy contract and could force it to revise its numbers for this deal. Accounting rules had allowed EDS to record revenue figures that are no more than educated guesses for this deal and other outsourcing contracts. EDS reversed $2.9 billion in sales in 2003 for its guesswork on these contracts, after it adopted new accounting rules restricting such moves.

AIRLINES No other outsourcer gets as much work from airlines, which means EDS is vulnerable to potential writedowns due to the industry's bankruptcies. To date EDS has $70 million in receivables and $116 million of operating assets associated with its contracts with struggling American Airlines and US Airways. EDS also discloses in its filings that it could be forced to take a writedown for its $135 million stake in a partnership that holds leveraged aircraft lease investments with American Airlines, Delta, Continental and an undisclosed airline, if they hit turbulence.

LEASING DEALS EDS relies on murky yet legal computer leasing deals to buttress cash flow. It is on the hook for up to $1.2 billion in off-balance-sheet leasing deals if, worst-case scenario, its servicing is substandard and companies bail out, says John Moore of Moody's Investors Service. EDS says none have ever been terminated for cause. Even more confusing, EDS has packaged $639 million from the Navy deal into asset-backed securities that flow through an off-balance-sheet securitization trust. Moore says that without these deals, EDS' free cash in 2003 (which Moody's strictly defines as cash from operations minus capital expenditures and dividends) would have been −$838 million, not the $230 million it reported. EDS disputes his analysis, saying it would instead have had $552 million in free-cash losses under Moody's strict definition, since, among other things, Moody's ignores the fact that EDS would get the cash payments itself from similar contracts, fees that now go to the banks that finance these deals.

—Elizabeth MacDonald

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THE GERMAN POST OFFICE IS NOT SO GERMAN anymore. Deutsche Post World Net, as it is now named, still earned most of its $1.7 billion in profits last year delivering letters. But Chairman Klaus Zumwinkel has bought some independence from economic stagnation at home with $18 billion worth of acquisitions, most prominently DHL International.

Now his air and ground forces have launched a U.S. invasion under the DHL banner—right into the teeth of a FedEx-UPS duopoly that holds 79% of this market.

DHL's $50 billion (revenues) parent is already the world's largest airfreight carrier, flying to more places than anyone else. Deutsche Post had a small investment in the San Francisco-based courier for years but bought the company lock, stock and delivery van two years ago. Outside of Germany it looks more like the intrepid DHL took over Deutsche Post than the other way around. Either way, what Zumwinkel wants is to rule global logistics.

To do that he needs America, the busiest express market in the world, with 34 million packages delivered daily. Zumwinkel gained a toehold last year, with the $1 billion acquisition of Airborne Express, the third-largest U.S. express delivery service, b he wants much more than Airborne's 6% market share. Bett to dub the whole operation (including Danzas, the Swiss freig forwarder bought in 1999) DHL—which is shorthand f "overnight it" in most of the world.

Result: a colorful invasion, involving 18,000 trucks, 30,00 drop boxes and millions of delivery packets sporting DHL's ne corporate colors: red lettering on a screaming yellow bac

Deliv

Until DHL came along, FedEx and UP

ground. (No one could miss those trucks; the colors are so loud that they helped lower the company's insurance rates.) This summer DHL sounded a cheeky battle cry, saying in one ad: "The Roman Empire, the British Empire, the FedEx Empire. Nothing lasts forever." DHL faced an awareness challenge. Though famous abroad, the name had only a 6% U.S. brand recognition earlier this year. So the ads first had to explain that DHL is a courier service, like FedEx or UPS. Now 27% know.

FedEx launched a humorous ad campaign of its own, attacking the other guys for rigid service and touting its new ground service with 35% savings over UPS. Big Brown hasn't countered the campaigns yet, but its dominance of U.S. ground shipments is under attack from both sides now.

UPS and FedEx fired their first volleys at Deutsche Post via their lawyers. They filed a series of complaints in Washington and Brussels, including one asking the U.S. Department of Transportation to cancel DHL's registration because DHL would use profits from its postal monopoly in Germany to engage in predatory pricing in the U.S. Deutsche Post, listed in 2000, is still majority-owned by the German government, but the DOT threw out the case, finding no evidence of "any unfair competition in the U.S. market by any of these DHL companies."

"Their number one complaint was that we shouldn't be here in the first place," says John Fellows, the Canadian in charge of DHL's American business. "But we're not going away."

As DHL expands in the U.S., its two rivals are trying to catch up everywhere else—especially in Asia. FedEx wants to be the first international shipper with a big hub in mainland China (DHL is building in Hong Kong), and UPS plans to add flights, thanks to a bilateral aviation agreement between the U.S. and China.

"But nobody knows Asia like we do," counters Fellows. "We have more profits and more volume in the region than anyone else."

Part of that edge is explained by history. DHL was started in San Francisco by three Americans who shuttled bills of lading from the West Coast to freight forwarders in Honolulu, saving their ships from sitting idle in port waiting for paperwork to process. The three started flying farther west, setting up offices in the Philippines, Japan, Australia, Singapore and eventually in Europe—everywhere but in the U.S. While FedEx and UPS covered North America with planes and trucks, DHL was dropping into places like North Korea and Croatia.

Thanks to world trade flows, DHL's Asian connection may be opening more doors than its ads. DHL is selling to the director of logistics or supply-chain management. Nearly any company that makes or distributes physical goods is likely to be aware of Asia and what DHL does there. Even a small importer may deal with 500 different factories in China at different times, some in the hinterland where UPS and FedEx can't compete yet.

Deere & Co., the $15 billion tractor and backhoe maker in Moline, Ill., is one of DHL's global customers. David Panjwani, who manages Deere's global transportation, plans to invite DHL to bid for more of the company's U.S. business. Meanwhile, Panjwani has no plans to throw UPS and FedEx more China business. "DHL is our partner of choice in China. They have the best connections with all levels of government," he says.

But Fellows has his work in America cut out for him. Airborne gave him 355 stations, 15,000 trucks—and a demoralized staff. He is spending most of his time trying to make the old Airborne crew think a little more like DHL. "DHL prides itself on being in the top tier worldwide. At Airborne, after worrying for five or six years that the company might go bankrupt, most of the employees were feeling second- or third-tier," he says. Fellows brought in fix-it executives from his previous employer TPG, the privatized Dutch post office, including Richard Metzler, who heads marketing. Metzler understands the enemy. He spent 18 years at FedEx, where he helped return the European business to profit. But he says he couldn't abide the bureaucracy when he returned home to headquarters in 1997 and left to work with Fellows, first at TPG and now at DHL. "FedEx and UPS are like the industrial engineers of the shipping business," he says. "Their greatest strength, their sheer size, is also their greatest

BY DEBORAH ORR

ing America

emingly comfortable duopoly in package delivery. It is getting less comfortable.

Flight of determination: DHL was first in China, but it intrepid founders left the U.S. market to UPS and FedEx. John Fellows *(below)*, chief of DHL Americas aims to change that with its buy of Airborne Express.

weakness. The more efficient they are, the less human they are."

His plan: to go after "the soft underbelly" of UPS and FedEx. "Most small and medium-size companies feel like they are an annoyance to FedEx and UPS," says Metzler. When they need help sorting out a problem at customs or making a difficult delivery, "they are starved for human interaction. They don't want a recorded message or a Web site." FedEx and UPS probably make "90% of their profits from the 20% of their customers who get no [big-shipper] discount," he says, though UPS denies his math.

Podium Distribution is one such company. The closely held $75 million skateboard-shoe importer already uses DHL to ship samples from South Korean factories to its headquarters in Torrance, Calif. "We save one or two days using DHL, and they give us better rates," says Podium's boss, Mark Feig. But on the ground in the U.S., he adds, "most goods go by UPS. Our retailers are so used to seeing those brown trucks every day at 10 a.m."

DHL has an answer for those familiar brown trucks. "We did a test on ground freight with DHL. They moved the goods one day faster and then cut the price," says Feig. "They basically told us they would do whatever it takes."

"The Roman Empire, the British Empire, the FedEx Empire. Nothing lasts forever."

Is Fellows also starting a price war? Can he afford one? He is losing $350 million a year in the Americas, according to Morgan Stanley's research, with an ambitious goal to break even next year. It's expensive to build a presence to match that of his rivals. Seven new regional sort centers will open by the end of this year and five more next year. DHL hopes to grow into them, and cutting prices is one way to bring in business fast.

He is also trying to make it a little easier to find DHL. There are now DHL drop-off centers in 990 OfficeMax stores aroun the U.S. At 4,000 retail shipping mom and pops, DHL has bee added to the menu. That still doesn't compare with the 50,00 points that accept FedEx packages or the 67,000 that take UP Nor does it compare with the street-level advertising and the all day, every-day service that FedEx added when it bought Kinko earlier this year. Ditto UPS with the 3,000 Mail Boxes Etc. store fronts acquired three years ago and rebranded with the com pany's brown logo. Metzler knows he can never match thei presence but figures he can compensate with service.

Next year DHL Danzas, DHL's air and ocean division, wi begin marketing a "warehouse on the water." One of its cus tomers is Gear for Sports, which custom-monograms baseba hats and sweatshirts for American colleges. The goods wi move from the firm's Guangzhou factory floor, across th ocean, through U.S. Customs. Then they will be broken up int shipments of one or two cartons and sent overland to cam puses from Oregon to Florida, eliminating a stop at a Gea warehouse in Kansas, says John Joerger, head of global logistic Gear for Sports has been flying gooc on UPS planes. The ocean/ground se vice will take longer but save th clients money and Joerger headache

DHL has even managed to sen some business back to Zumwinkel i Europe. Skechers, the California shoemaker, stuffs most of i international letters into an airway bag and puts it on a DH plane headed for Europe. The bag is opened by Deutsche Pos and individual letters are forwarded to their global destination Michael Cardenas, in charge of domestic shipping for Skecher estimates the cost savings at 60% over U.S. Postal Service rate He thinks he can save almost as much switching some domest traffic to DHL from FedEx and UPS.

Score one for Fellows. But can he cut rates and still make profit?

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A techie waits for th next computer viru at Trend Micro's "wa room" in Manil

Ware Protection

A nasty trend is a friend for Trend Micro as computer viruses thrive in a networked world | BY BENJAMIN FULFORD

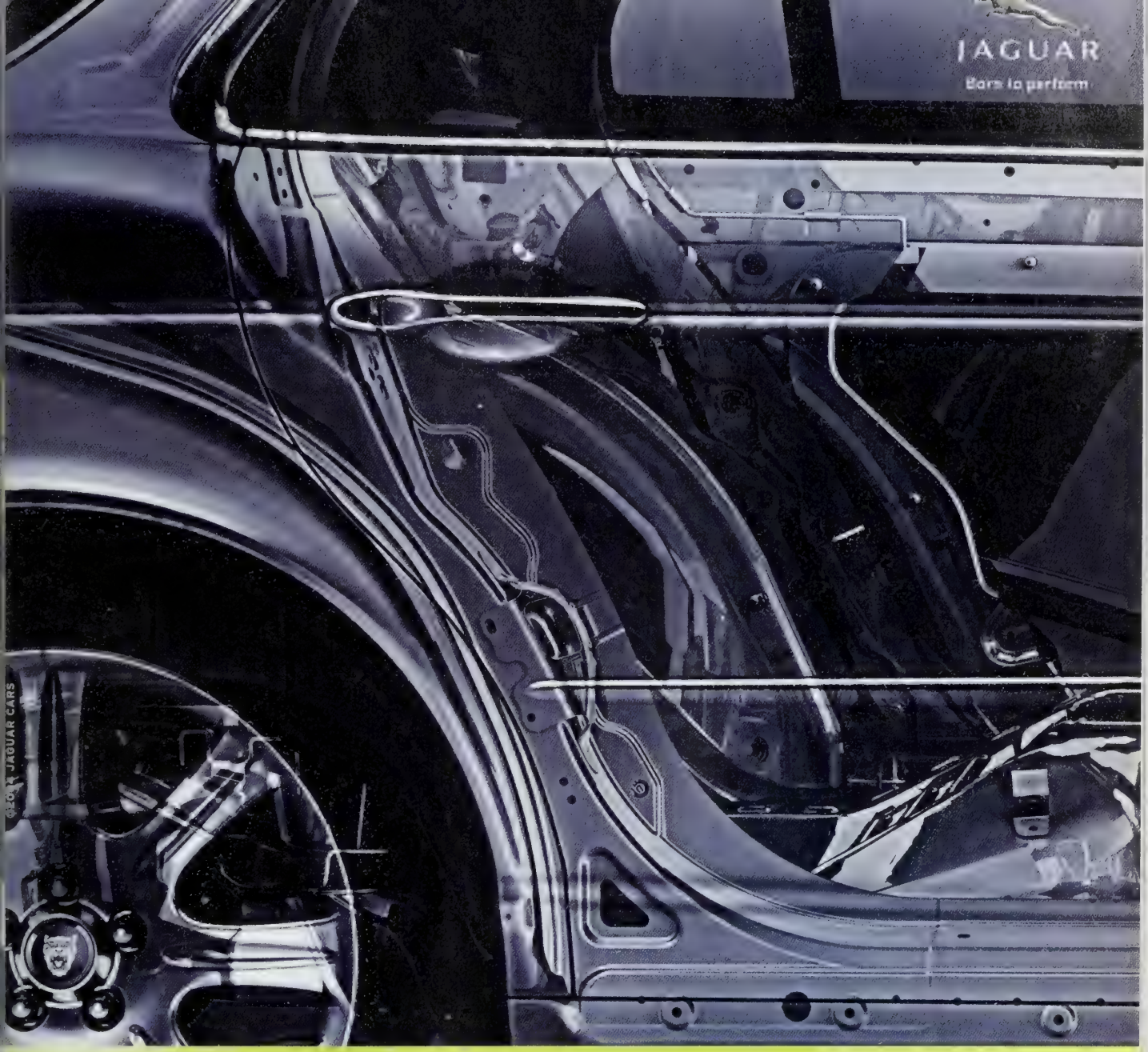
COMPUTER THREATS ARE BIG BUSINESS. AS broadband spreads and computers are connected 24 hours a day, dangers emerge: data miners, hackers, Trojan horses, phishers *(see p. 88)* and network viruses. Unlike traditional viruses or worms, network viruses have the potential to spread throughout the world in minutes without anybody having to click on anything. By the time virus-fighting companies come up with an antidote, it could be too late. Some count 70,000 known viruses; 6 notorious ones *(see p. 86)* have caused an estimated $20 billion in damages.

This is bad for the Internet but great news for Trend Micro, a computer security company headquartered in Tokyo's showcase-of-everything-new Shibuya district. "They used to think c [antivirus software] as a separate option; now it is like seat belts i a car," says Mahendra Negi, Trend Micro's chief financial office

Trend Micro is expecting its revenues to rise 20% and earn ings 35%, to $136 million and $57 million, in the quarter ende Sept. 30. That kind of growth has produced a fat market capi talization ($5.6 billion).

In 2003 the antivirus market as a whole grew 21% world wide to $2.7 billion, and similar growth is expected for 200 according to market research firm IDC.

"This thing snowballs. Business partners insist you hav security. Honda says, 'You cannot access our system withou protection,'" Negi notes.



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The spread of broadband in Japan has meant that 60% of Japanese computer users experienced virus-related problems during the past year. As a result, 92% of Japanese computer users have now installed antivirus software, and Trend Micro has a 44% share. In the U.S., by contrast, where 24-hour fast hookups are only now becoming commonplace, 63% of home Internet users either do not have up-to-date antivirus protection or do not have any at all, according to a study commissioned by Microsoft.

Which has made Japan a propitious base for the company that Taiwan-born Steve Chang founded in 1989. Chang had gotten a computer science degree in the U.S. and worked at Hewlett-Packard. He returned home to found AsiaTek, a creator of Unix software programs, but says it was wrecked by piracy. That struggle was what led him to protective software.

"In 1988 I found out about a company in Pakistan that used software that destroyed a hard disk as a form of copy protection," he recalls. "This turned out to be C-brain, the first virus."

Started in Los Angeles, Trend Micro became the first company to put antivirus software on servers. In 1993 Chang gave Intel the U.S. and European licenses for the technology for five years for $3 million a year. He then moved his company to Japan, where he retained rights to his product. Business expanded rapidly there and, in 1999, when the Intel license expired after a one-year renewal, he began expanding in Europe and the U.S., hitherto turf owned largely by American rivals Symantec and McAfee. Trend Micro, strongest with small and medium-size businesses, is now dominant in th Asia Pacific area and is battling it out in the rest of the world.

Speed of replication is key to the virulence of evil software Traditional viruses and worms need someone to click on a attachment to activate the program. Network viruses, essen tially commands over the Web, do not. MsBlast was thus abl to infect 400,000 computers around the world within 15 min utes. Last year the Slammer worm infected 90% of vulnerabl computers on the Net in roughly ten minutes.

At its antivirus center in the Philippines, Trend Micro has map that displays in close to real time where viruses are comin from and how they are spreading. A rapid-reaction team ca come up with an antidote within 45 minutes of finding th virus and get that antidote to most customers within tw hours. Its competitors have similar defensive systems. But the are all too slow for the new types of viruses.

One approach being explored is to install programs tha look for unusual behavior in a computer and then temporaril stop it until it can be investigated further. The downside is tha necessary functions may be shut down by such programs eve at times when there is, in fact, no attack taking place.

Rapid onset of new dangers means that packaged antiviru software is out-of-date long before you even take it off the stor shelf. These days subscriptions and regular automatic update are a must, promising a steady revenue flow for Trend Micr and its rivals.

One of those rivals is Microsoft, whose new security patch Windows XP Service Pack 2, is being distributed free to users o its operating system. SP automatically updates the operatin system to protect it in the face of "increasingly sophisticate attacks" from hackers, viruses and other security risks, accord ing to a memo by Bill Gates.

Negi concedes that ultimately the consumer antivirus mar ket could become Microsoft turf. However, Trend Micro make 80% of its money from corporate customers who run man non-Microsoft computers. Trend Micro was the first compan to put antivirus software on servers instead of on individua PCs. In keeping with its server-based tradition, it has reached a agreement with Cisco to put its products inside networ routers, the non-Microsoft part of the Net where the bigge future threats lurk. ■

Mounting Toll

Six major viruses over the last five years have left $20 billion in estimated global costs. Network viruses will be worst of all.

	Virus	DAMAGE U. S.	DAMAGE Worldwide
1999	Melissa	$570 million	$1.5 billion
2000	Love Bug	3.33 billion	8.75 billion
2001	Code Red	1.05 billion	2.75 billion
2002	Klez	285 million	750 million
2003	SoBig.F	950 million	2.5 billion
2004	MyDoom	1.52 billion	4 billion

Estimates based on cost of lost revenue, labor, hardware and software for the most damaging virus attacks for the past six years. Costs for 2004 are projected.
Source: Computer Economics.

Who's Knocking?

Here are some of the nasty bugs that can infect your computer, courtesy of commercial or hacker sources:

Viruses: Bits of software that infect other programs and rely on them to reproduce themselves. Sometimes considered along with worms as part of a single category known as "malware."

Worms: Like viruses, but more complicated. They make copies of themselves independently of other software.

Trojan horses: Software inserted into your hard drive to let others access or hijack your computer to get information or send spam.

Adware: Spy programs that send information to others about you and what you are doing. When you download free software on Kazaa, for example, you may be accepting these into your computer by clicking the "I agree" button. A scan of this writer's one-year-old laptop revealed infection by 199 adware programs, enough to seriously slow the computer.

Spyware: A more malicious data miner aimed at stealing confidential information like passwords and account numbers.

Network viruses: Malware coming over a network directly into your memory without first lodging on the hard drive. Can arrive as a series of small bits of information that are individually harmless, until they team up on your computer.

—B.F.

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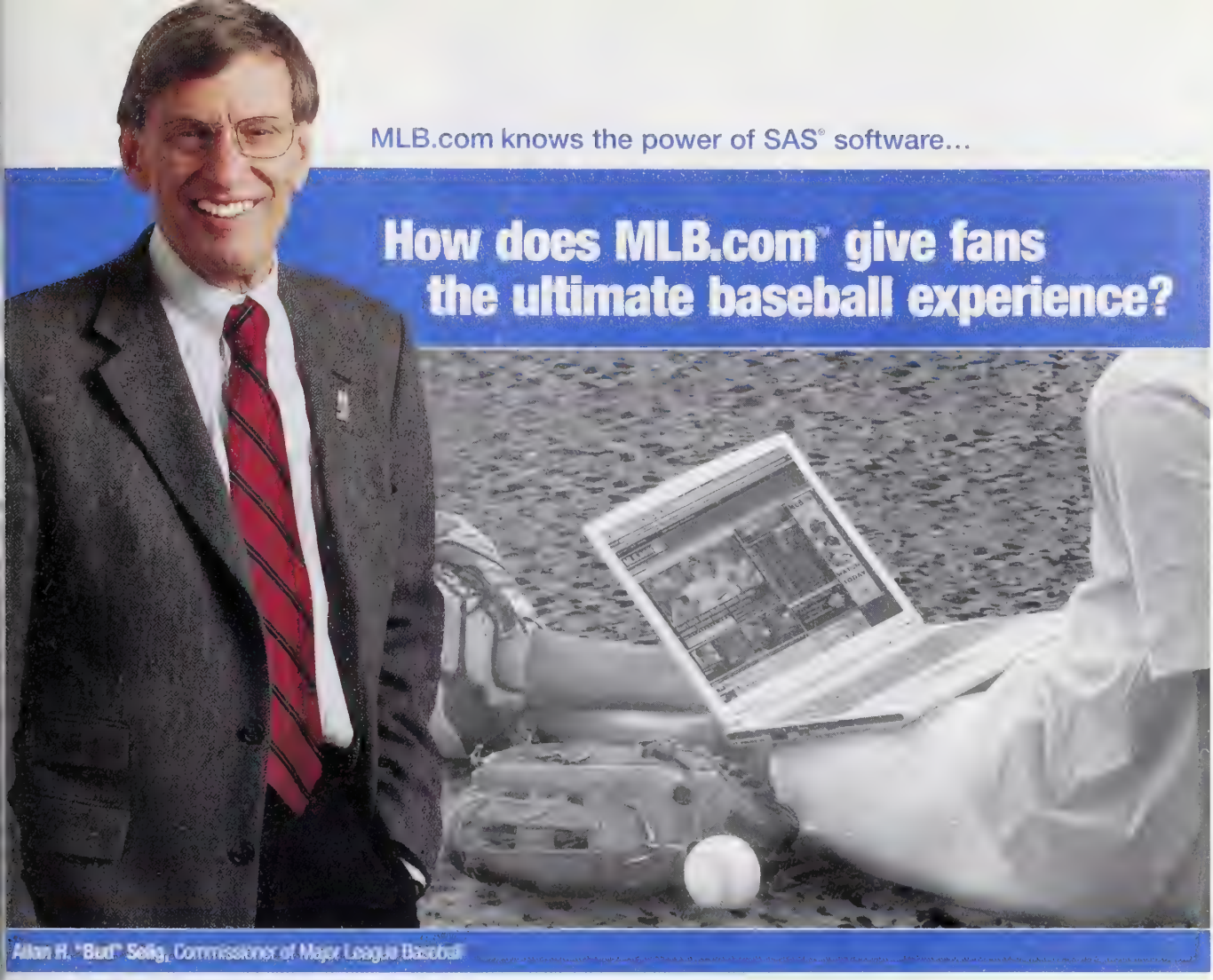

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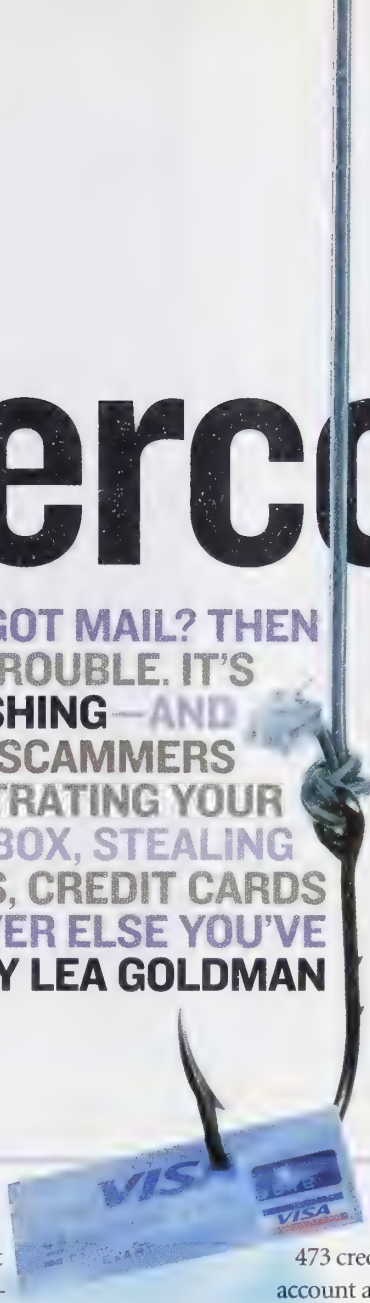
Cybercon

YOU'VE GOT MAIL? THEN YOU'VE GOT TROUBLE. IT'S CALLED PHISHING—AND HUNDREDS OF SCAMMERS ARE INFILTRATING YOUR INBOX, STEALING PASSWORDS, CREDIT CARDS AND WHATEVER ELSE YOU'VE GOT. BY LEA GOLDMAN



AS A HIGH SCHOOL SENIOR IN HOUSTON, Zachary Keith Hill killed time by doting on his souped-up Honda Accord, practicing hair-braiding skills and surfing the Net. Hopscotching AOL chat rooms and message boards, he hooked up with "Mike," a salty 16-year-old from New York City with a penchant for slamming chat room blowhards. Mike helped Hill design a flashy Web site for one of his classes in the winter of 2002, a favor that grew into a friendship and, within months, evolved into a partners-in-crime spree.

That partnership deepened and grew soon after Hill entered his freshman year as a computer engineering student at Texas A&M University at Prairie View that fall. The husky 20-year-old recalls, "Mike said, 'Anything you can think of, I can get for free.' I was, like, 'Cool.'" Over the next year the duo blitzed what Hill calls "thousands and thousands and thousands" of bogus e-mails supposedly from AOL's billing center to subscribers, urging them to provide sensitive financial information before their accounts were canceled. A link embedded in the e-mails sent recipients to a stunningly realistic but phony AOL billing page, where they could input their credit card numbers. The data went to an e-mail account opened under Hill's name. Hill and his accomplice used the pilfered cards to bankroll a $47,000 online shopping spree for videogames, computer equipment and car accessories.

Phisherman: Zachary Hill drew 46 months in jail on federal fraud charges.

The FBI nabbed Hill after he picked up a package that contained an expensive mat to cushion speakers in the trunk of a car. After getting a search warrant, authorities found on his computer 473 credit card numbers, 152 sets of bank account and routing numbers and 566 sets of user names and passwords. Hill blames Mike, but pleaded guilty to federal fraud charges and was sentenced last May to 46 months at a low-security prison in Beaumont, Tex. (Because he is a minor, Mike was handed off to state prosecutors who never pursued any action; he was, however, ordered to pay $125,000 by the Federal Trade Commission, a judgment that was stayed.) "It's not as bad here as you'd think," says Hill, putting on a brave front in a crisp, green prison uniform. He expresses no remorse for his crime or his victims—only regret that he got caught. "I wish I hadn't gotten that trunk mat," he says.

This is the new face of the fastest-growing cybercrime: not an al Qaeda agent, not a hardened criminal, not even a

Kevin David Mitnick, the computer genius who hacked his way into the heart of what was then Pacific Bell. These new scammers are average students, bored stay-at-homes and low-end criminals who have discovered how easy it is to pick the locks on the Web. Their specialty is phishing, creating fake sites that sucker people into giving up account numbers and other sensitive information online. (The spelling alludes to the phone "phreaks" of decades past, who pilfered long-distance phone service.) They get technical help from any of 50 or more gangs of professional criminals, operating mostly in Russia and eastern Europe, where legions of unemployed programmers have found steady work as freelance hackers.

The scams are incredibly effective. In the 12 months through April 2004, 57 million Americans said they received what they believed was a phished e-mail, reports the consultancy Gartner. Of those, 1.8 million people took the bait, and 980,000 claimed they were scammed as a result.

Phishers steal goods, services and cash totaling $1.2 billion a year, estimates Gartner. The amount stolen, moreover, is just a sliver of the total damage done. Figure in the amount spent on security software to stop the phishers, the damage to brand names and the value of time lost straightening out the messes they make and you have a multiple of that total. Guessing at an admittedly fuzzy total, Shawn Eldridge, chairman of the Trusted Electronic Communications Forum in Dallas, comes up with $50 billion.

Where are the cops? Why can't these electronic shoplifters be stopped? One reason is that the online commerce industry is loath to install safeguards that would add friction to the lucrative wheels of online commerce. It would be possible, for example, to demand passwords or PINs for all credit card transactions, but that might discourage people from shopping; it would be possible to make it hard to order delivery to any address other than the billing address for a card, but that would inhibit gift-senders.

Another problem: There is scant incentive for victims like Citigroup and AOL to share leads on criminal activity either with one another or with the FBI. It is cheaper to block a stolen card and move on than to invest time and money on a prosecution.

And then the consumers have to take some of the blame. There wouldn't be much phishing if they didn't take the bait.

On alert: EarthLink's Les Seagraves and his group troll for troublesome phishers.

Catch of the Day

Of the 1,974 unique phishing attacks in July, these companies were hardest hit. Financial services companies consistently endure at least 75% of the blows, though Ebay, PayPal and Amazon are the most frequently targeted online retailers.

1	Citibank (682 unique attacks)
2	U.S. Bank (622)
3	Ebay (255)
4	PayPal (147)
5	AOL (41)
6	Suntrust (25)
7	Lloyds (23)
8	Fleet (20)
9	Barclays (17)
10	EarthLink (15)

The lure is an e-mail that looks as if it came from a legitimate source like Citibank, Visa or Ebay (*see box, p. 97*) but did not. Phishy e-mails, once clumsy and threatening, are these days pretty slick. They often consist of cut-and-paste copies of legitimate e-mails sent to customers. The victim uses an embedded link to respond, thinking that it is taking him to a legitimate Web site. There are a lot of things you can do to prevent identity theft (*see box, p. 98*); the most basic is to navigate to an e-commerce site only by using your own bookmark or carefully typing in the address.

What do e-commerce outfits do to prevent phishing? They send out fliers warning customers of the hazard. In the case of Citi—which was the target of 35% of the 1,974 reported attacks in July—the bank never sends account-related e-mail through the Internet. What do Internet Service Providers do to stop the phishers? Hard to say. AOL, the largest, declined to discuss its tactics, while rival EarthLink

Private Patrol

One service provider that has had some luck in slowing phishers is EarthLink, in Atlanta. Though a shrimp compared with AOL (5.3 million subscribers to 30 million), EarthLink was one of the first to sound the alarms in July 2003, joining the FBI and the FTC in a press conference warning Web surfers about the growing problem. Back then, the company says, each phish attack generated some 20,000 calls from perplexed customers, which required reorganizing call centers and response groups—at an estimated cost of $100,000 per episode. In August 2003 the ISP filed suit against spammers, including a ring of two dozen or so phishers in Vancouver, B.C., for $5 million-plus in lost productivity and Internet bandwidth added in order to manage millions of bogus e-mails sent from stolen EarthLink accounts. (The Vancouver matter has been dismissed, though EarthLink has the right to refile, pending the outcome of a related criminal case in Canada.) "It's expensive and definitely a headache," sighs Les E. Seagraves, EarthLink's chief privacy officer.

EarthLink used to rely on a spike in volume as the smoke signal for a phishing attack. In April Brightmail, an antispam vendor, started notifying EarthLink when phished e-mails were sent to subscribers; the ISP can now find offending Web sites and disconnect them in minutes. (EarthLink subscribers can't get to them, although AOL customers still can.) EarthLink's ScamBlocker software, free even to nonsubscribers, flashes an icon with a thumbs-down if you approach a dubious Web site. ScamBlocker vetos a site if it's hosted in a suspicious locale like Romania, or if a numerical Internet address is included in the URL, as in http://10.255.255.255/citibankbilling. The software also scans for 25 "phishy elements."

EarthLink adds "John Doe" defendants to lawsuits against suspected phishers. (There are 20 such defendants currently outstanding.) This gives the company subpoena power to continue its own investigations against suspected culprits. While the number of phishing attacks against EarthLink hasn't changed much over the last two years, the company claims it now gets just 300 calls per attack, cutting its cost of responding by 95%. —*L.G.*

(see box, opposite) promotes them.

First detected in 1996, phishing has exploded in the last two years, becoming the crack cocaine of cyberspace—easy to produce, easy to fall for. For the criminals, tools are right at hand. Web sites like Shadowcrew.com ("For those who wish to play in the shadows," reads the home page) host forums for members to trade tips on how to scam. Subscribers to the Russian glossy magazine *Khaker* ("hacker") can skim tutorials on how to set up a fake online store to steal credit cards. There are even "phishing-in-a-box" kits available for download. "Some Joe Q. Public could do this for free, make his own phishing Web site and carry out his own bush league attack," says John Waters, chief executive of Idefense, a cybersecurity intelligence firm in Reston, Va.

A phished credit card is its own currency on the Internet. Thieves don't have to create a plastic card to match the number. On the Web, no one knows if you have plastic in your hand. Instead, the phisher can use the numbers to order goods by mail or even to insert money into a PayPal account. Or, the thief may sell the numbers individually or in bulk online to other crooks. The danger doesn't stop with illicit charges on that number. Credit card numbers can be used to apply for new cards and loans, creating serious damage to the real owner's credit.

The business of buying and selling stolen credit card numbers—a crime called "carding"—has mushroomed into a flourishing cybermarket. Scores of underground Web sites like StealthDivision.biz and Dumpsmarket.cn have cropped up to cater to the demand. Some sites even rate sellers on their reliability—a criminal flip side of Ebay's Feedback Forum. A "virgin ccz," or stolen card number that has never been used illicitly and is, therefore, less likely to have been canceled by the real owner, is worth $2 to $3 per credit-card number. A Russian gang called the HangUP Team often works for hire, says Idefense, and was commissioned in April to develop software that automates the collection of stolen credit card numbers, PIN codes and card verification values (the last three digits on the reverse of a card).

For victims, it can mean weeks of hassle. There are the calls to credit card companies, banks and merchants; new PINs and passwords, along with new credit cards or checking accounts; certified letters to various parties; police reports and fraud alerts sent to credit agencies. And when it's all over, there's the lingering fear that you're still unprotected and that your credit record has been compromised forever. "I once met a woman who had her life practically destroyed by this kind of identity theft," says Mary Youngblood, a customer security strategist with the ISP EarthLink. "You know what the police advised her to do? Change her name and get a new Social Security number."

Law enforcement is still playing catch-up. In late August the Justice Department announced its "Operation Web Snare," arresting 103 cyberswindlers (and scoring

convictions against 53) who targeted some 150,000 victims whose losses totaled $215 million. How many of them were phishers? The feds won't say.

Nabbing these guys is as tricky as catching fish with your bare hands. To date, only a handful in the U.S. have been prosecuted. Helen Carr, a self-professed porn spammer, was living with her mother in Akron, Ohio when she convinced fellow spammer George Patterson of Jeannette, Pa. to join her scheme in January 2001. They frequently sent "instakiss" messages, supposedly from secret admirers, to AOL subscribers. To retrieve the message, the recipient had to input a user name and password, which was often directed to a Yahoo account controlled by Carr and Patterson. Once they had the account information, they spammed phishy e-mails to AOL subscribers, urging them to update their accounts by inputting credit card information. (They used a program called "Green Eggs and Spam.") Total estimated damage to victims: $215,000 from at least 429 stolen cards.

Carr would have eluded capture if a suspicious e-mail had not been sent to an address belonging to Joseph Yuhasz, an FBI agent in Norfolk, Va. Pleading guilty in October 2003 to "conspiracy to possess unauthorized access devices," Carr, 55, is serving a 46-month sentence in a minimum-security prison in Alderson, W. Va. Patterson, 23, pleaded guilty to the same charge and received a similar sentence.

Matthew Guevara of Chicago got five years of probation, a $2,000 fine and 250 hours of community service. Using a dummy Web site, www.msnbilling.com, he collected account information from Microsoft MSN customers. He blasted e-mails to them, urging them to update account information—data that went to his Hotmail accounts. He is believed to have scammed at least 180 people and charged at least $10,000 to their accounts.

EVEN AMATEUR PHISHERS CAN COVER THEIR TRACKS WITH A FAKE SITE AND A STOLEN CARD.

Even amateur phishers can cover their tracks easily enough. The fake Web site has an Internet address and a domain name, and that domain must be registered, ostensibly in the real name of the person controlling it. A hosting company must be paid to maintain the site. But the registrant's name may be a lie, and the hosting bill might be paid with a stolen credit card.

The U.S. could clamp down on this process, imposing on domain-name issuers and hosting companies the kind of know-your-customer requirements now applied to banks. But what good would that do on the worldwide Internet? Register a Uniform Resourc Locator (URL) in Soutl Korea or hire a Ukrainia company to host a Wel site and authorities mus then contend with lan guage barriers, time-zon differences and indifferen foreign police. And whil the average life span of phished site is 2.25 days according to the Anti Phishing Working Group it's still ample time to bai thousands of targets.

A group in Polan reportedly has advertise "invisible bulletproof host ing," which, for $1,500 month, protects owners o rogue sites from detectio by investigators through falsified audit trai "Anonymous hosting" i common offshore, wher companies don't requir identifying informatio from the sites they host Buyers can pay using cas or money orders, whic effectively prevents investi gators from tracking th money flow. The U.S. als has tenuous diplomati ties with some countrie that host fraudulent phish ing sites, including Pak istan and Nigeria.

"We are limited i what records we can obtain from foreig countries," explains Scott Christie, com puter and telecommunications coordina tor for the U.S. Attorney's Office in Ne Jersey, who works cases against Russia and eastern European hacking and cardin gangs. "In some nations we have inform law enforcement relations which allow u to get records in a timely fashion. Bu [other] countries just aren't going to b that cooperative."

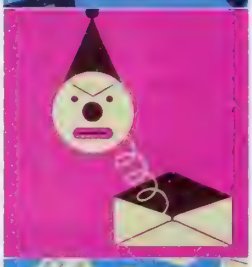
Phishing is a subset of the crime o identity theft. Since 1998, says the FTC, th identities of 27.3 million Americans hav been hijacked, resulting in $48 billion i losses to businesses, plus another $5 billio

Anatomy of a Phish

Creating a phishing scam isn't difficult, thanks to the availability of online tools like "phishing-in-a-box" kits and online forums where phishers trade tips. Other tactics:

SUBSEVEN A popular "Trojan horse"—software that appears innocuous but contains an attack program—sent via e-mail which enables unauthorized people to access your PC over the Internet without your knowledge.

ZOMBIES Hijacked computers effectively become zombies when intruders use your machine to, say, blitz spam or illicitly buy goods. An army of zombies can attack a company's servers, effectively shutting them down.



E-MAIL SPOOFING The forging of an individual's or company's e-mail address in order to win the trust of other users and persuade them to open a message—to create new mischief like deploying a Trojan horse.

KEYSTROKE LOGGERS Furtive programs that record every keystroke of an infected computer and then lay low—until phishers use them to retrieve user names and passwords, as well as credit card information.

INVESTING IN HR TECHNOLOGY NEVER ENDS.
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Hewitt

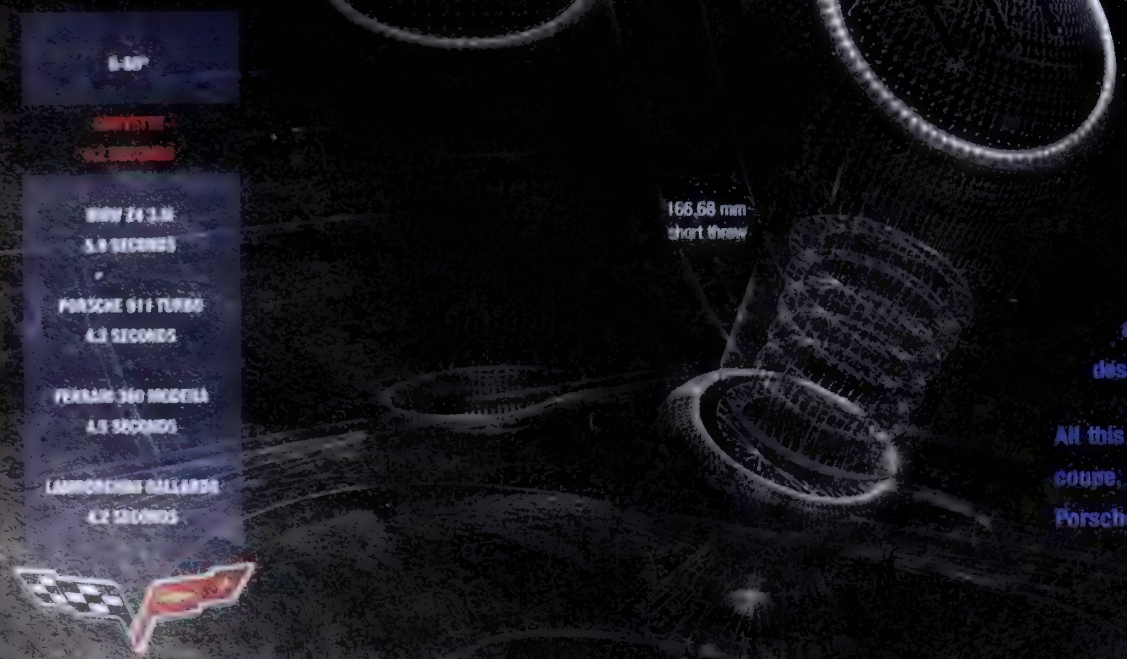
RJP 263

4.2

0-60

AN AMERICAN REVOLUTION

HOW DO YOU GET FROM ZERO TO 60 IN 4.2 SECONDS? THROW SHORT.



Corvettes have always been fast. The new LS2 V8 engine makes the sixth-generation Corvette® even faster. Zero to 60 in 4.2 seconds. Quarter mile in 12.6 seconds @ 115 mph on the test track. But Corvette engineers looked beyond the engine to get you there. Performance is enabled by the diligent use of high-strength, lightweight materials throughout the car. A patented full-perimeter frame with center backbone structure is extremely rigid, yet lightweight. Lighter weight even extends to the easy clutch effort and shift action of the standard manual short-throw 6-speed, designed for fast shifts at the flick of your wrist.

All this contributes to a curb weight of only 3,179 pounds for the coupe, giving Corvette a higher power-to-weight ratio than a Porsche 911 Turbo. Any questions?

THE NEW CORVETTE.
THE OFFICIAL CAR OF [illegible]

*Numbers based on latest competitive [illegible] The Corvette Emblem is a trademark of the GM Corp. © 2004 GM Corp. Buckle up, America.

in out-of-pocket expenses borne by customers. The businesses that lose include credit card issuers, banks and, especially, merchants, who bear the brunt of the losses. Card issuers generally can't charge consumers more than $50 for losses on a stolen card and often don't even assess that sum if the theft is reported quickly. (That $50 ceiling is lifted after 60 days.) Merchants are generally held responsible for losses; they are even assessed chargeback fees of $10 and lose out on shipping. Consumers lose, too, notwithstanding the $50 ceiling. They spend money on phone calls, notarized affidavits, copies of credit reports and sometimes lawyers to get their lives straightened out. And they have to absorb fraudulent charges if they are remiss in discovering fraud—like by not opening a monthly statement for two months. Average loss to the consumer on an identity theft, according to the FTC: $1,200. (It doesn't have a separate number for phishing.)

To address the problems of identity theft, Congress last December passed the Fair and Accurate Credit Transactions Act, or Facta. The legislators were moved, in part, by the epic struggles of Michelle Brown, who went through stolen-identity hell and whose story was related to the Senate Judiciary Subcommittee on Technology, Terrorism and Government Information in July 2000. Her impersonator racked up more than $50,000 in goods and services, ruined her credit, engaged in drug trafficking and was on the lam for six months, all in while assuming Brown's name. (The story is the subject of a recent Lifetime movie.) Among the act's provisions: Consumers are entitled to one free copy of their credit reports each year, allowing them to monitor predators who have used their names to create credit cards and accounts. If you're worried about such activity, you can call a credit agency to place an "alert" on your file, warning potential creditors of possible fraud before they issue new cards. Further, to thwart dumpster-divers, credit card receipts must truncate numbers by December 2006.

THE NEW FEDERAL LAW IS HARDLY AN IMPREGNABLE SHIELD AND DOES NOT ADDRESS THE DANGERS POSED BY PHISH ARTISTS.

But Facta is hardly an impregnable shield, and it doesn't address the peculiar dangers posed by phish artists. The law doesn't provide for credit monitoring that automatically informs customers of fraudulent activity. Card issuers are not required to inform law enforcement of phishing and other cybercrimes. Nor does the act define what "reasonable steps" creditors must take to ensure that cards are getting into the right hands.

The federal law, meanwhile, supersedes some stringent state laws governing identity theft. Under the federal act, creditors need only "proceed with caution when granting credit in the consumer's name" according to testimony from J. Howard Beales III, director of the FTC's Bureau of Consumer Protection. Fraud alerts on credit reports are still all over the map. Experian keeps a red flag on the books for 180 days, while TransUnion preserves it for a year.

Facta doesn't mandate specific antifraud efforts by issuers or banks, though most have voluntarily installed software that detects abnormal spending patterns. These prompt banks to call their customers if, say, there's a $1,000 withdrawal in Prague from a checking account in Pittsburgh. (Crooks have evaded these safeguards by withdrawing small increments over time, a method that often escapes the attention of both victims and their banks.)

For daily monitoring, consumers have to fork over $80 or so a year to agencies like TrueCredit and ConsumerInfo.com, which provide e-mails notifying subscribers of telltale signs of identity theft—applications for additional or extended credit, inquiries, changes of address. How did consumers end up getting stuck with the bill for stopping the crooks? "Credit monitoring is a very profitable business for the credit reporting agencies," says Jay Foley, co-executive director of the Identity Theft Resource Center, a nonprofit in San Diego. Foley points out that the three credit rating agencies peddle their own monitoring services.

What if you lose a week of your time, and suffer much anxiety, from an identity theft that is demonstrably entirely due to the negligence of the card issuer? Can

Sent: Friday August 29 2003 6 50 AM
Subject: eBay Security Request

ebay

Dear eBay User,

During our regular update and verification of the accounts, we could not verify your current information. Either your information has changed or it is incomplete

As a result, your access to bid or buy on eBay has been restricted

According to our site policy you will have to confirm that you are the real owner of the eBay account by log in and complete the form that will pop up or else your account will be suspended without the right to register again with eBay

After you will login please verify your information in order to complete this verification.

Thank you

eBay Customer Support

eBay User ID

You can also use your registered email

eBay Password

Forgot your password?

Submit

Having problems signing in? Get help now

Smells Like a Phish

While some phished e-mails are cut-and-paste jobs of actual communiques between companies and their customers, many contain suspicious clues. Among them: 1) Grammatical errors—this e-mail is loaded with them. 2) Urgent or threatening language warning that an account will be disabled if action is not taken immediately. 3) A convoluted URL for the link. The header to the link should always begin with "https" ("s" stands for "secure") not just http. 4) The page has no reference or links to the home page, a giveaway that this is not a legit site. —*L.G.*

you collect $5,000 from the bums? Fat chance under Facta. "Even if a creditor issues credit to a phisher and doesn't call you up to check to see if it's you, victims have no right to sue under Facta," says Mari Frank, a lawyer and privacy consultant in Laguna Niguel, Calif.

A more effective early-warning system—a phone call to an individual's home on record before a credit card is activated, for example—would certainly help consumers and serve as a speed bump to phishers. "I don't think customers would like that," says Michael D. Cunningham, senior vice president of credit and fraud operations at J.P. Morgan Chase & Co.'s card services division. "Sounds too inconvenient."

In fact, banks and card companies have done all they can to fight regulation that would force them to share more information or slow the process of issuing new cards. That drives the feds crazy. "Businesses are not reporting the problem," complains Bruce A. Townsend, Deputy Assistant Director of the Secret Service, which, along with the FBI, claims jurisdiction over phishing scams. "The financial services sector thinks a certain amount of loss is acceptable, that it's cheaper to just deal with the problem than fix it."

Banks and card issuers insist they share enough information so that a crook can easily swindle, say, MBNA after fraudulent lifting credit data from Providian. But stil it's not inconceivable that phishers could g away with the kind of crime spree waged b Carl and Jennifer Alpert of Lake Mary, Fla who, with accomplices, obtained credit in formation about wealthy people in jail an established new credit under their name with Capital One MasterCard, Discove Chase Bank Visa, American Express an others, amassing $1.7 million or more i stolen goods. (Carl received a 30-year sen tence; Jennifer got 46 months.)

Though financial companies are tigh lipped about their preventive tactics fo fear of giving the bad guys an ideas, most rely on sophisticated neural network softwar that analyzes historical infor mation about customer spending habits, as well a those common to scamster They're also putting lots o money into customer awaren ness. On the heels of Citibank antifraud campaign, Your CreditCardCompanies.com, consortium of issuers, starte airing national TV ads in Jul about identity theft. In deve opment: virtual account num bers, a one-time-only set o digits that connect to a cus tomer's account and expir after a single transaction. Vis is matching the FTC's efforts b launching a national hotlin for ID theft victim (1-866-ID-HOTLINE). Bot Visa and MasterCard offe cardholders the option o choosing an additional pas word that must be input for a online purchases. Our advic Use it.

Banks and card companie may yet come up with bett technology for securin e-commerce. For now, thoug they're too content to shrug o the crime wave and pass th costs along to consumers in th form of higher fees and intere rates.

Don't Get Snared

Unique phishing attacks jumped from 176 in January to 1,974 in July, according to the the Anti-Phishing Working Group. Some involved thousands—even several million—of bogus e-mails. The more sophisticated ones don't just poach credit card numbers but furtively install spying software and remote-access programs that hijack the victim's computer.

How to stay in the clear? Be suspicious of an urgent e-mail claiming that one of your accounts will expire unless subscriber information is updated promptly. Don't use an e-mailed hyperlink to connect to your bank—it might take you somewhere else. Credible banks, credit card issuers and online retailers never ask for PINs, checking account numbers or Social Security numbers via e-mail. When in doubt, call the phone number listed on the back of your credit card or on your bank statement.

Offline, exercise similar prudence. Check bank and credit card statements monthly. At least once a year examine your credit report for credit card or loan applications, changes of address and unwarranted notices of delinquency.

If you've been hooked—or suspect you've been—notify your banking institution and credit card issuers immediately. (Consider keeping a list with names and phone numbers, though not the credit card numbers, in a secure drawer.) The maximum liability under federal law for unauthorized use of a credit card is $50—within the first 60 days. That's hardly reassuring, given that, according to the Federal Trade Commission, nearly one-quarter of fraud victims take upwards of six months to discover the abuse.

Debit cards are even more hazardous. Most banks will reverse fraudulent charges if you notify the institution within 60 days of the fraud. So open your statement as soon as it lands in the mailbox. In the event of fraud, notify all three credit reporting agencies, then request a copy of your credit report in order to spot any past illicit activity. Sites like Ebay and PayPal have links set up to report hijacked accounts.

It's wise to update firewalls and run security checks regularly to detect and disable so-called malware. You wouldn't use the same key for your office, car and home. So why rely on the same passwords for all accounts? The FTC has already established a toll-free hotline and even offers a standard affidavit to send to credit reporting agencies and issuers, simplifying a process that could take as long as a month to sort out. —*L.G.*

ERNIE ELS.
ED MEYER JEWELERS
Official Watch of the PGA TOUR
OMEGA

MICHAEL LEWIS' HEADACHES ARE (MOSTLY) FAMILIAR TO any owner of a small business. Is my staff too big? What should I focus on next? If I wear ice armor, can I have laser vision, too? The answer to that last question is, No, you can't—in the online gaming world, you gotta keep it simple.

Keeping it simple is critical to the suddenly roaring success of Cryptic Studios in San Jose, Calif., a hot shop founded and majority-owned by Lewis, 32. Cryptic's massively multiplayer Internet game, City of Heroes, debuted in late April and has 180,000 users, adding 6,000 more newcomers every week. They pay $50 up front and $15 a month to design their own superheroes, arm them with an arsenal of mayhem machinery and pit them against a huge array of villains in the virtual Paragon City.

Heroes is one of the fastest-growing online games ever, the online world's equivalent of such out-of-nowhere hits as Harry Potter in books and *The Blair Witch Project* in film. Lewis, who reaped $17 million selling a graphics-chip company a few years ago, figures Cryptic will be profitable by early 2005. "We're 30% over my wildest dreams," he says.

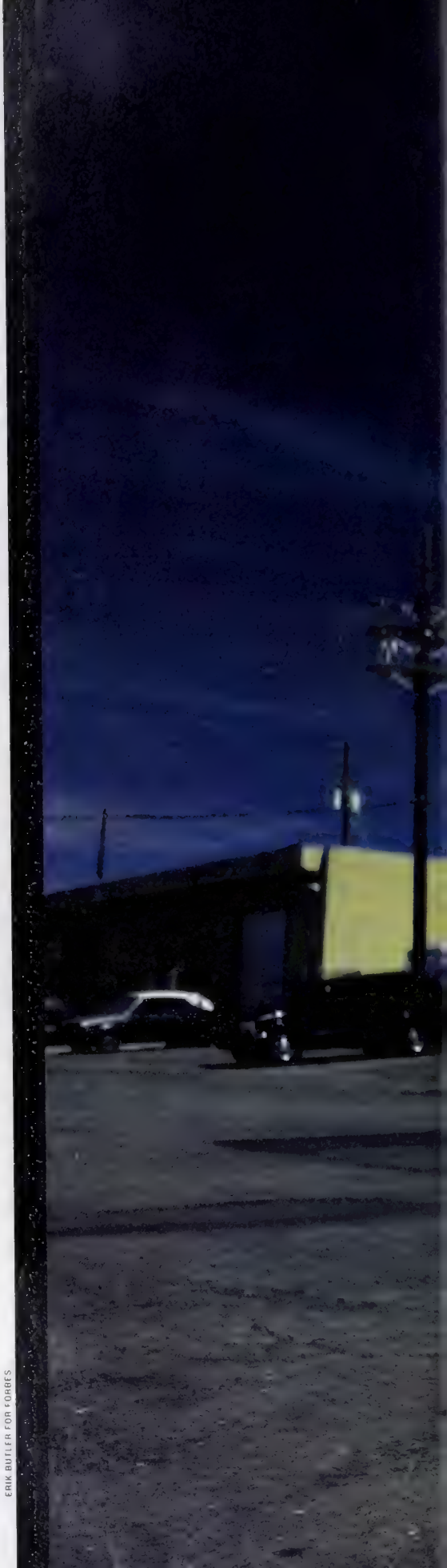
Cryptic thereby defies a troubling trend: Internet games, first ballyhooed as the next big thing, have struggled. Electronic Arts dropped perhaps $30 million (EA won't confirm it) building, marketing and supporting Sims Online, but it drew at most 80,000 users, and the fad has faded. Users said Sims, with no monsters and no fighting, was a bore. LucasArts and Sony released Star Wars Galaxies last year, only to get slapped with a Worst Game of the Year award from *Computer Gaming World*, upset that the game had no spaceships and made it all but impossible to become a Jedi. (Sony says both problems have been fixed.)

But when an online game hits, the riches pour in. Sony's EverQuest is the bestselling multiplayer game in the U.S.; it has 400,000 subscribers after five years. Most pay $50 to start and $13 a month to play, and many clock hundreds of hours playing with other players around the world, communicating via instant messaging, e-mail or Internet voice connections. Sony figures it could earn up to $500 million in profits in eight years on EverQuest, which cost $30 million to build and $14 million a year to update.

Lewis and his staff beat the odds by melding comic books, classical mythology and modern production techniques, and by fighting a few demons of their own on the way. Lewis spent $2.5 million of his own money, plus loans of $4.5 million from his distributor, the U.S. arm of South Korea game company NCsoft, to create City of Heroes. NCsoft is spending another $18 million a year to market and operate the game and provide customer support.

In the 18 months before the Heroes debut, Cryptic's staff of 35 made the art and story come alive in 480,000 lines of code. The code is separated into 740 computer instruction files that handle everything from dressing up a character in an almost infinite selection of outfits (a total 10 to the 27th power, in fact) to flying through the city, as well as 25,000 graphics files. At peak hours 30,000 automated villains roam each of ten versions of the city. All the possibilities are managed by 600 2-gigahertz chips (from AMD) in ten servers. They can manage four teraflops, equivalent to the world's biggest supercomputer.

Lewis, a longtime player of videogames and Dungeons and Dragons, the forerunner paper-and-pen role-playing game, graduated with



ERIK BUTLER FOR FORBES

GAMING

Ordinary Hero

Michael Lewis has the hottest new Internet game, besting the big boys by playing down plasma guns in favor of something more powerful: story.

BY QUENTIN HARDY

a degree in computer systems engineering from Rensselaer Polytechnic Institute in 1993. Soon after he founded his graphics-chip company, Stellar Semiconductor, which was acquired by Broadcom in late 1999 for $60 million in stock but had run up to $168 million by the time the deal closed in March 2000, just as the Internet bubble burst.

Lewis walked away with $17 million and began working on his Ph.D. in physical chemistry at UCLA. But before he left Broadcom, he had gotten a pitch from a childhood gaming friend, Richard Dakan, who asked him to fund an online game about heroes. By chance Lewis also met a former engineer from videogame maker Atari, Bruce Rogers, who was developing a new graphics engine and was working on a game of his own. Lewis brought the two men together.

"The idea was to have enough capital to self-publish it or sell it on good terms" to a big publisher, says Lewis. He held a board seat and attended UCLA while the other guys got to work.

Dakan had brought in his grad school buddy, a classics scholar named Jack Emmert, to build a game featuring the science fiction of comic-book superheroes—without paying license fees for established characters like Batman or Spider-Man. "Nobody really cares about the name, they just want to put on a suit and fight evil," says Emmert, who worked his way through grad school writing role-playing games and taught classics at Ohio State.

After users choose from the zillions of costumes and body types, they pick from 400 different powers, including laser blasts, gravity control, mind control or the ability to summon a snowman that delivers quick-freezing breath.

In early 2002 Cryptic signed a loan and distribution agreement with NCsoft, which was looking to expand into the U.S. Cryptic got more than the 10% royalty on sales typical for novice developers but less than the 30% paid to experienced designers. "Not a bad deal for a bunch of nobodies," says Lewis.

By late 2002, however, the Cryptic game was 18 months behind schedule, plagued with ineffective code and joyless, fussy play. Lewis dropped out of UCLA and went to work to solve the delays. He found chaos and complexity. Developers weren't documenting what they were doing, and many were doting on their own pet projects, adding more powers, fights and plot lines. So Lewis fired his childhood pal, Dakan, sending him off t write a Heroes comic book, and name himself chief executive in early 2003. H began making the game far simpler.

Excessive complexity is a gam designer's most common pitfall. A goo PC-based game has a lifespan of 30 hour of play; a good multiplayer game gets 2 hours in just a week, for months on end with thousands of avatars interactin with each other. The trick is to keep i interesting and fun—but simple. Earl versions of Heroes were overburdene with choice and hard to follow.

Lewis brought in two programmer from his old chip company and impose a design process akin to one for building chip, focusing on small components t deliver their complex product. "You ge out the basics," he says, "and deliver bell and whistles later." No longer could yo give your character two defensive power like leaping tall buildings and running a the speed of sound. You had to have on defensive and one offensive power. It cut down on choice, but it's more fun.

Emmert, who remains Cryptic's lea designer, produced 400 hours of conten for the first version of the game, largel constructed in 45-minute chunks subdi vided into a formula of 75% fighting 25% talking and helping people. "I've go it now so that within the first 15 minute you're fighting evil," he says.

With the game in better shape NCsoft paid for a two-minute trailer at gamers' conference last year. The ne game won awards a year before it wa ready. Testing began in January, and b April 30,000 gamers were playing free c charge, so Cryptic could work out cod bugs and make life easier for the fan When City of Heroes went live last Apri instead of the freebie customers walkin away, they and thousands of other signed up at a furious pace.

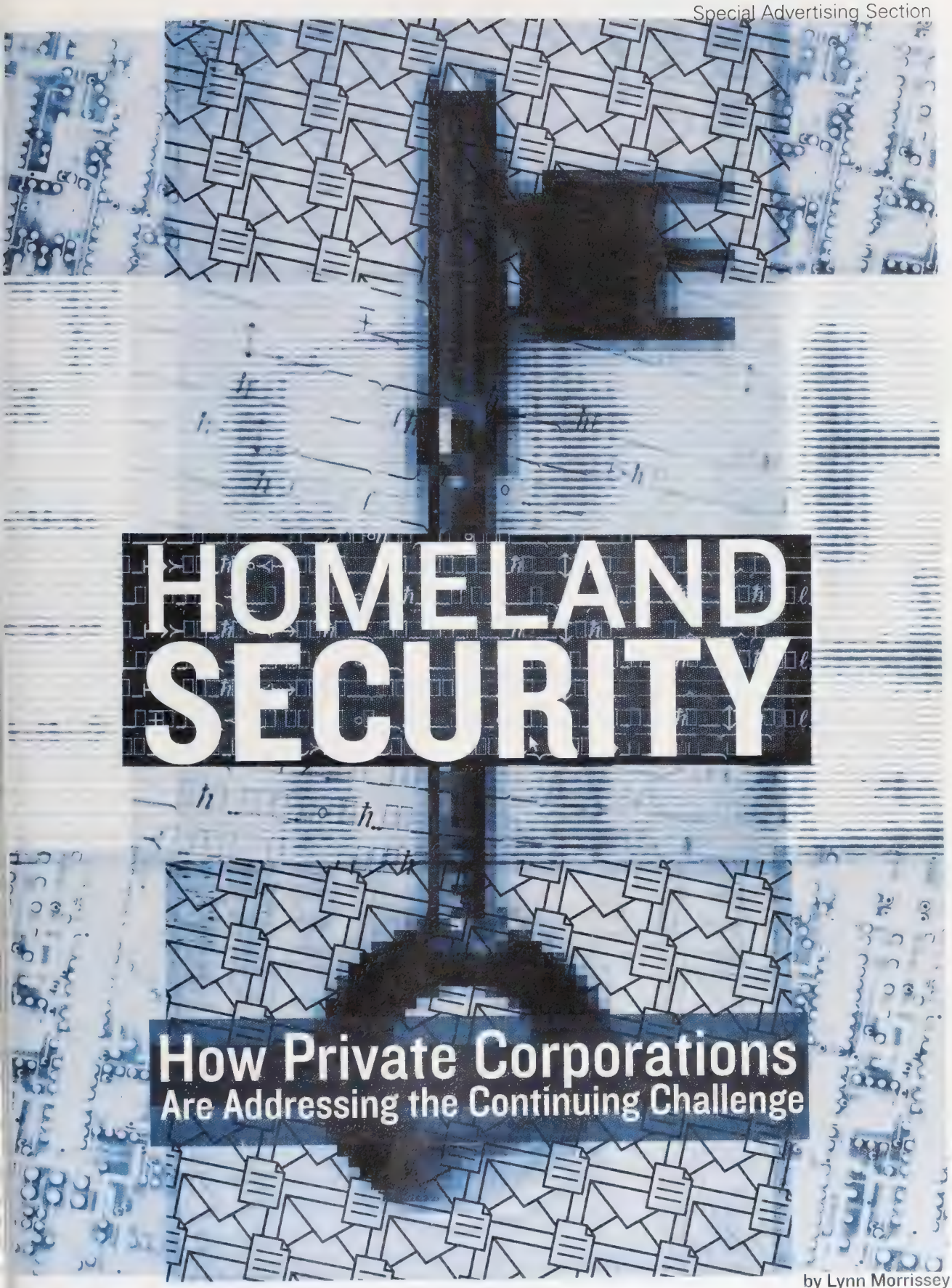
Like Sony, which has spent mor than four years building EverQuest II, se for a November debut, Cryptic is design ing another game, called City of Villain while the heroes are hot. Lewis says h has no illusions about the new undertak ing. "Most engineers don't have to worr about fun," he says. "I now apprecia how hard it is to do fun."

A World for the Rest of Us

Big game companies like Sony and Electronic Arts have largely failed so far to move massively multiplayer games beyond young, fantasy-obsessed males. Most adults, in the U.S. at least, don't want to be sword-wielding elves long enough to let a gamemaker turn a profit. Only in Asia have fantasy role-playing games found a broad audience.

EA's Sims Online encouraged people posing as avatars to meet, chat, and entertain each other within worlds the creators design. That was too much work for most; subscribers spent much of their time waiting to be entertained by the company's artificially intelligent characters. Another highly anticipated site, There.com, depended on adults creating their own content. It withers as its backers concentrate on building simulations for the military.

The problem may be in execution. Linden Lab, which set up the Second Life site two years ago, plateaued at 1,000 users in August 2003. Users got fed up with high taxes on the manufacture of things like virtual T shirts, so they sent their avatars on strike, marching and carrying signs against their own world. In December Linden turned over the code-writing to the users themselves, charging only for "land" (i.e., new territory on which users could build whatever they wanted) and "property taxes" plus a $10 monthly subscription fee. Second Life attracted lots of designers, who sell T shirts and guns, or will build other players' virtual dojos, bars and houses. The good news: Traffic on Second Life is up tenfold since the site went libertarian. —Q.H.



HOMELAND SECURITY

How Private Corporations Are Addressing the Continuing Challenge

by Lynn Morrissey

Michael J. Lewis
Vice President
Siemens Government Solutions

As a global leader in innovation, Siemens is focused on developing products that leverage the new capabilities of second-generation IP (Internet Protocol) communications. One example is HiPath OpenScape, a personal communications portal that takes the "buddy list" a step further by allowing users to see if the person they're trying to reach is available to talk on the telephone, before they even dial. HiPath OpenScape expedites decisions for day-to-day operations and emergencies by giving users access to one-click multimedia collaboration sessions for predetermined and ad hoc teams. Every decision, whether it be business or government, requires a subject-matter expert, and this product allows companies and federal agencies to bring teams together to expedite the decision-making process and gain organizational efficiency.

SIEMENS

In the three years since 9/11, the country has rallied both to understand the nature of our vulnerabilities and to limit our exposure to risk at home and abroad. While much of this has been government-focused, of equal importance has been the mobilization of the private sector. In addition to their traditional responsibilities to shareholders, companies are hard at work protecting their assets, customers, employees and even their communities from danger.

Securing the Nation's Cyber Infrastructure

In protecting the homeland, one fa that has emerged as an increasingly consideration is the Internet. "Disrup here don't just mean disruptions of i mation," says Thomas E. Noonan, c man, president and chief executive o

> "One of the things we need to make sure of is that as a country, v don't get complacent. The solution to securing the homeland involv technology, it involves processes, it involves policy — and mo important, it involves people. The American people are an integr part of the solution."
> — David Zolet, Vice President of Homeland Security, Northrop Grumman Corporation

Working with this in mind, several companies have moved to the forefront with innovative products and services that can bring lasting security. "One of the things we need to make sure of is that as a country, we don't get complacent," says David Zolet, vice president of homeland security for Northrop Grumman Corporation. "The solution to securing the homeland involves technology, it involves processes, it involves policy — and most importa involves people. The American peopl an integral part of the solution."

of Internet Security Systems Inc. ("They mean the possibility of disrup of our nation's critical infrastructure, in ing the disruption of power systems, t portation systems, financial services i tries and everything else imaginable."

What is particularly alarming is tha threats faced by the Internet have g and magnified, just as threats to the ical world around us have also growt

learly, the need for Homeland Security is critical. Northrop Grumman is leading in many areas crucial to his vital mission. For instance, we're working on the INS Technology Enterprise Automation Management upport (TEAMS) program providing information technology (IT) infrastructure and support to improve border nforcement. We're also playing a leading role in the Coast Guard's Deepwater program, which will vastly pgrade U.S. maritime defense capabilities. One final example is our work as primary contractor on the U.S. ostal Service's* Biohazard Detection System (BDS), which — when fully deployed — will reliably detect trace evels of anthrax in the mail at 280 major mail-processing facilities. Northrop Grumman is uniquely capable f meeting the challenges of Homeland Security. And while the journey is limitless, so too is our vigilance.

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hrop Grumman's commitment to Homeland Security includes their work for the Deepwater Contract from the U.S. Coast Guard, under their Integrated Coast Guard Systems joint venture, with Lockheed Martin

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Ahead of the threat.

despite this, the government cannot easily step in to monitor the Internet. As a result, this ranks as the first national security threat that the government can do little about by itself, says Noonan, who was also appointed to the National Infrastructure Advisory Council (NIAC) to advise the president on issues surrounding the security of information systems that support the nation's critical infrastructure as part of homeland defense.

"The corporate sector and government agencies need to work together to secure the nation's cyber infrastructure. Cyber security is part of the basic fabric of business operations, and organizations absolutely must make this a priority for themselves, as should consumers utilizing the Internet," he says.

While simple techniques such as encryption and firewalls offered protection in the early days of the Internet, they fall short in today's environment. "The firewall is the equivalent of a wooden door with a thumb lock on it," says Noonan, "but the threats that are being shot against it are the equivalent of nuclear and chemical and biological weapons." In response, ISS has pioneered a dynamic, preemptive security solution, which identifies and eliminates problems before they start.

"Conventional Internet security solutions are inefficient and still rely largely on 'attack-based' methods that respond to known threats but leave you vulnerable to new ones," says Noonan. "Just as preemptive measures are more effective than reactive measures in the real world, Internet Security Systems preemptively protects world governments and large enterprises in the online world."

This preemptive security approach lowers the cost of policing the network, because the system is proactive rather than reactive. "It seeks to detect and prevent problems before they manifest themselves in your environment," says Noonan. To think a security device such as this is foolproof would be folly, he says, "but this represents the state of the art in multidimensional threat protection and prevention."

Bringing Biometrics to Reality

Nowhere is the security issue more urgent than at the nation's airports, where the legacy of the horrors of 9/11 is most palpable. While much of the public focus has been on government regulations that promote security, a great deal of progress has been made through the choices of individual airports, with the help of Ingersoll-Rand's Security & Safety Sector.

The company has worked for decades to provide products and solutions for the airport market. In the current climate, the focus has been on creating a package of services and product solutions to help airports manage the rapidly changing environment relative to security. Currently company has made headway by dem strating the effectiveness of its biom applications in several airports in the The company's biometric HandRe takes a three-dimensional reading o size and shape of a hand and verifies user's identity in less than one sec eliminating identity theft and allowing authorized personnel access to the sensitive areas of the airport.

At Yeager Airport in Charleston, W Virginia, HandReaders restrict acces the control tower, which is located in airport terminal, and also to the H system and other sensitive equipm "We feel that hand geometry is the and most reliable biometric techno available," reports Yeager Airport Dire Rick Atkinson. The control-tower d are opened about every five min

"Large and small businesses and local, state and federal governmenta agencies need to work together to implement solutions. Cyber securit is part of the basic fabric of business operations, and organization absolutely must make this a priority for themselves, as should con sumers utilizing the Internet."

— Thomas E. Noonan, Chairman, President & CEO, Internet Security Systems Inc.

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Business is no longer confined by four walls. Today, people need to access and exchange information – anytime, anywhere. Thanks to Siemens Next Generation Internet solutions, they can. From cellular phones to business communication systems to optical networks, we provide the tools that make Mobile Business a reality. As a leader in everything from information and communications to healthcare to industry and automation, Siemens is in a unique position to make all our lives better. We have 65,000 U.S. employees working together with thousands more all around the world. Exchanging ideas. Sharing knowledge. And strengthening America's infrastructure and businesses.
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David Zolet
Vice President of Homeland Security
Northrop Grumman Corporation

When we think of homeland security at Northrop Grumman, we think of a broad range of activities that need to come together in a coordinated effort. We think of protecting the borders, we think of interoperable communications, and we think of early indications and warnings. These are the types of things we focus on from a mission perspective. The challenge of securing the homeland is that these represent sequences of problems rather than single issues that can be addressed in isolation. Given this, the biggest advances can be made, we believe, by taking what we view as a holistic or system-of-systems approach to homeland security, one in which we no longer look at vulnerabilities in isolation. The goal is to weave and interconnect each layer of defense — border protection, interoperable communications, early indications and warnings — into a greater, integrated whole. Although we will never be totally secure, with realistic, pragmatic planning, we can prepare for the worst so this country can continue to reap the best.

NORTHROP GRUMMAN

around the clock. "We have never had any problems with the HandReaders since installing them. They work fine and are easy to administer."

Just as significant as the technology is the bold decision by the Toledo Express Airport to implement a biometric-based acce4ss control system, without waiting for government regulation. "We're working with airports that are willing to draw the line and say, 'Not on my watch,' " says Mike Lamach, president of Ingersoll-Rand Security & Safety sector, who believes security can best be viewed as a deterrent, rather than a cure for terrorism. "The chances are small that they'll look at Toledo Express as an opportunity for identity theft," he says, where Ingersoll-Rand biometric HandReaders control access to 100% of air-operations doors, making it impossible simply to steal or forge a badge for entry. Is Toledo Express a safer airport as a result? "Yes, it certainly is," says Lamach. "And that's what security is all about."

Securing Federal Agencies

The U.S. federal government is one of the world's largest employers with 1.8 million civilian employees in the executive branch alone, excluding the postal service. Add to their ranks the 1.4 million active members of the U.S. armed forces, and the magnitude of organizing employee information starts to come into focus. Each employee needs secure, specialized access to computer networks, telephone systems and even physical buildings. "Organizing this data becomes a mission-critical operation even for the smalles agencies," says Michael J. Lewis, v president of Siemens government sale Reston, Virginia.

"At Siemens, we take a holistic appro to security by combining different ments such as employee identity m agement, network access, network se rity and physical security," Lewis contin Using the Siemens DirX meta-direct solution, IT departments can store employee information in one central st house so that there is one defini source and one single location for upda "By synchronizing employee identity in mation, network security and phys security, government agencies can matically simplify operations, reduce er and cut costs. This is all the more im tant in a climate of heightened secu aimed at protecting both human lives critical information," he says.

This is particularly important given high rate of intragovernment transfer employee churn. With 7% of all execut branch employees separating or resign in a single year, it is imperative to give r employees rapid access to the resour they need. Likewise, agencies mus able to rescind network and phys access quickly through a streamli approach. "Government agencies that able to reduce the amount of adminis tive time spent on employee identity m agement are way ahead of the ga when it comes to cutting costs. And w you combine this with network and p ical security, DirX offers a powerful s tion," says Lewis.

> "By synchronizing employee identity information, network security and physical security, government agencies can dramatically simplify operations, reduce errors and cut costs. This is all the more important in a climate of heightened security aimed at protecting both human lives and critical information."
> — Michael J. Lewis, Vice President of Siemens Government Sales, Reston, Virginia

DirX is already the solution of choice r IT departments around the world erving millions of employees — includ- g General Motors, the world's largest hicle manufacturer, and the Canadian deral government. It has also recently en installed in the Howard University ospital in Washington, D.C., a teaching spital that is used by 25,000 students d 4,000 employees.

ilding the Department Homeland Security

As the U.S. meets the challenge of aring information to protect against acks, Northrop Grumman is focusing on ilding the necessary infrastructure to able the Department of Homeland curity (DHS) to focus on its mission. orthrop Grumman's solutions address e key elements of interoperability, com- and and control systems, and information sharing. This last area has emerged as a priority and refers to systems that allow government agencies to consolidate and correlate key data from numerous databases in multiple organizations.

"A total of 22 separate agencies make up the Department of Homeland Security, and they have a very formidable task in trying to come together as a single agency," says Zolet of Northrop Grumman. The key enabler of this effort will be the ability to communicate and create a single human resources system as well. "We're working with them on these fundamental issues, so that they can focus on the mission for which they were created."

Northrop Grumman is executing programs in several major areas to help create the infrastructure that will support the DHS. First, the company has created an information technology infrastructure for the Bureau of Immigration and Customs

Mike Lamach
President
Ingersoll-Rand Security
& Safety Sector

In the rush to secure air safety across the nation, some airports have been more proactive than others. The leaders have decided on their own to take steps that have not been specifically mandated by the government to increase security, such as by installing identify verification checkpoints using biometrics at sensitive areas. Why do some airports embrace this and not others? It's generally not a financial consideration, because there are federal programs that make grant money available to airports that wish to enhance their security. Instead, the difference is a matter of perception. Many airports, like many corporations around the country, are waiting for the federal government to mandate the necessary security solutions, believing that there's nothing they can do about it until they do. Others, like Toledo Express and Yeager Airport, recognize the risks and have the foresight to do something about it in a cost-effective way. They're not content to wait to be told to act, nor are they willing to wait until a significant security breach occurs. In my opinion, and in the opinion of people such as those at Toledo Express and Yeager, the best approach to homeland security is for those in a position to take action to do so now rather than later. The best defense against today's threat is executed at the local level, and that execution is what's going to make us more secure as a nation.

IR Security & Safety
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Thomas E. Noonan
Chairman, President & CEO
Internet Security Systems Inc.

The Internet has become a vital part of today's business fabric. Internet security is a lynchpin of business strategy and operations. Despite increased investments in Internet security, companies continue to be thwarted by sophisticated new Internet threats.

Faced with no alternative, organizations have settled into a conventional wisdom that the risks are simply unavoidable, that no Internet-driven business strategy can be immune from the "Russian roulette" nature of Internet attacks, since "reactive" protection remains the default standard.

However, companies can no longer afford to depend on reactive security techniques. The potential for huge business losses from sophisticated new Internet threats, new compliance pressures and the spiraling cost of managing outmoded security approaches are all wake-up calls for corporate management. The only security approach that effectively addresses these issues is preemptive protection.

Preemptive protection requires market-leading research, a keen eye for attack trends and techniques, and a streamlined and affordable platform for delivering advanced knowledge-based security products. Preemptive security is the only solution that can truly keep Internet-dependent organizations ahead of the threat.

Today, Internet Security Systems is the only company capable of delivering a preemptive solution that stops Internet threats before they impact your business. In medical terms, preemptive security is like an inoculation against Internet-borne threats, protecting your organization's vulnerabilities from attacks before they take place. ISS commands the extensive knowledge, innovative research methods and complex technologies required to achieve preemptive security and succeeds in delivering it all in easy-to-use appliances and software.

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head of the threat.

Enforcement (ICE) that will be use support border enforcement and in gration benefits, key missions of agency. This involves building an ir structure that allows basic commun tion, such as telephone and e-n Second, the company is serving as contractor to create the departme human resources systems. "We're de oping the framework that will allow department to implement its policy," Zolet. "This sharing of resources speed internal operations, allowing department to continue focusing on cal tasks to fulfill its mission."

Lastly, the company is working create the Homeland Secure Data work, known as HSDN. This grou breaking network will create secure nections that will link the 22 DHS leg agencies onto one secure network sharing classified information. "Wh most important about this network is it will allow communication to travel b ways, from the DHS out to state and governments, and from state and governments back to the DHS," Zolet. This will help to remedy one of most glaring weaknesses in the nati ability to gather and share intelligence

While none of the individual efforts f these various companies will provide key that wins the war against terror, cumulative effect will ultimately be o whelming. "It's these steps that essential," says Zolet. "One by one, e by effort, we're building a nation th stronger — and far more secure."

Web Address Directory

Ingersoll-Rand
www.irco.com

Internet Security Systems Inc
www.iss.net/proof/whitepaper

Northrop Grumman
www.northgrum.com

Siemens USA
www.siemens.com

by Stephen Manes

Phones With Keyboards: How Smart?

IF IT DOESN'T HAVE A KEYBOARD, IT ISN'T A SMARTPHONE. That's my ironclad rule when it comes to mobile handsets that deliver e-mail and Web access along with voice calls. You've got to be nuts if you try to do serious e-mail by pressing the 2 key three times for the letter C. But a keyboard alone won't make a phone truly smart.

Manufacturers are starting to get the keyboard religion. Now T-Mobile is offering first crack at three unique models, complete with sluggish but adequate GPRS data service for a $20 monthly surcharge over voice plans.

Strangest of the crop is Research in Motion's $200 BlackBerry 7100t, a new design whose bright, readable screen helps make it look at first glance like a large traditional phone rather than one of the company's previous hybrid message machines. But instead of embedding digits within a QWERTY thumbboard, as PalmOne's Treo and T-Mobile's new Sidekick II do, RIM takes the opposite tack and crams the letters onto and around a standard numeric phone keypad. The backlit QWERTY layout puts two characters instead of three on most number keys and adds keys left and right of the numbers to complete the picture.

If you're serious about sending messages on your phone, the keyboard is key.

It's not as horrible as it sounds. When you type, software called SureType comes to the rescue. Working like T9 and similar keypad-based schemes, it guesses what you type, putting up surmises that can start out in left field but get better as you work your way through the word. It's by far the most accurate system of its kind that I've tried—thanks in part to a large dictionary and, since each key has only two characters instead of three, better odds of guessing right.

But this setup isn't good enough. Since the display shows the software's current word guess, the visual feedback can imply that you did something wrong when you didn't. Make a real error (I made plenty) and you may end up correcting letters you never actually typed. Tactile feedback is poor, too: Hitting a single key to produce two different letters on a QWERTY keyboard feels totally unnatural. The keys are so close together that you often accidentally hit one that sets off a function you didn't intend.

Characters like the @ sign, apostrophe and quotation marks don't appear on the keyboard and often require entering a special "symbol" mode that takes two key presses. When typing something like an Internet address, you have to remember to shift into mode like those on phones, where you press a key multiple

times to get what you want. The plethora of odd modes makes it virtually impossible to type one-handed; just moving the cursor one letter left or right requires holding down a special key while thumbing the scroll wheel. And if you run into a phone number like 1-800-GOOBERS or an office directory system that asks you to enter the first few letters of the name of the person you're calling, you have to use a special non-obvious mode.

Otherwise, the handset has all the pluses and minuses of a decent phone with Bluetooth and speakerphone plus BlackBerry mail and (though it wasn't available for me to try) a Web

RIM BlackBerry 7100t from T-Mobile.

browser. Those without corporate BlackBerry servers need to have e-mail picked up by BlackBerry's separate Web-based service or use a redirection program that requires one's computer to be always on; managing either one can be a tedious chore. And RIM's scroll wheel still requires far too much clicking to suit me. True BlackBerry fans will probably want to stick with models that use the original thumbboard that RIM patented and popularized.

The $300 T-Mobile Sidekick II is the successor to a phone often compared to a large bar of soap. Now that bar has slimmed down about 25%, with a low-res built-in camera, a less plasticky look and extra buttons for things like controlling volume and hanging up calls. Beneath its flip-up screen resides an excellent but nonbacklit thumbboard with big keys and an embedded number pad. But the new Sidekick hasn't fixed its precursor's most obvious shortcomings as a phone: the lack of a keypad when the screen is closed and an awkward profile when the screen is open and you hold the handset to your ear.

T-Mobile Sidekick II *(above)*; HP iPAQ Pocket PC h6315 *(below)*.

Like the BlackBerry, the Sidekick lacks a touch screen and depends largely on a clickable scroll wheel for navigation. And the Sidekick is basically dependent on dedicated servers for data. That's both an advantage and a curse: The servers do things like reformatting complex Web pages before you receive them, filtering mail so that you can read the text of attachments in formats like Microsoft Word and Adobe Acrobat, and keeping your contact list in synch with the phone.

But the servers also bring limitations. Your contact list is capped at 2000 entries, too few for me, though probably not for most people. Worse, your mail inbox is limited to a measly 6 megabytes, a total that nowadays could quickly be eaten up by a few large photos or a bad spam day. And sometimes that reformatting leads to annoyances, like the ability to directly click or even cut and paste a Web link from an e-mail.

Far-flung cellular data networks are fine for e-mail, but Wi-Fi makes browsing better.

The $500 HP iPAQ Pocket PC h6315 feels like a big PDA that happens to have a phone inside. Its strong suit is wireless connectivity: four, count 'em, four ways of connecting to data without a cable include Wi-Fi, GPRS (cellular), Bluetooth and infrared. It's serious about multitasking, letting you do things like surf the Web over the Wi-Fi connection while you're hanging on the telephone, and you get extras like a low-res camera and an SD card slot. But it makes my cut as a smartphone only because of a removable nonbacklit QWERTY thumbboard that comes in the box, plugs into the bottom and adds still more bulk.

Pocket PCs have traditionally not played well with keyboards, and this snap-on model seems an almost total afterthought. It has an embedded number pad, but the phone isn't smart enough to know that when you're dialing, you're probably entering digits; forget to hit a fun tion key for each press of the embedded keypad you dial and you get nothing. A five-way navig tion key below the screen, though highly twitc and poorly integrated into applications, gives yo some ability to navigate with one hand. But th keyboard hides it, and its arrow keys require mult ple key presses. Applications often pop up a spac wasting onscreen virtual keyboard even when th real one is attached.

Wi-Fi is a nice extra on a device like this, but i hardly essential. For example, Windows Media Play can deliver streaming video and music over the We via Wi-Fi, and that basically doesn't work over GPR Web browsing is far better. But if you set up th phone to get e-mail via GPRS at regular interval you'll probably never notice that it took a few seconds longer tha it might have in the wireless cafe. Wi-Fi is undeniably faster, b you'll find GPRS wherever you can get a voice signal. And a Wi- subscription isn't cheap; to use its 4,700 hot spots T-Mobile charg roughly $20 a month on top of voice and cellular data charges.

With all this networking available, it's hard to imagine wh you'd ever bother with Bluetooth, except to use a wireless hea set. And having extra networks adds extra complexity. When walked through my neighborhood with Wi-Fi enabled, the un insistently prompted me to lock onto neighbors' encrypted an useless networks rather than switching to GPRS automatical Although GPRS initially worked, it completely conked out afte changed a setting in response to the system's demands; fixin the problem took a call to customer service.

Each of these handsets adds an interesting wrinkle to th smartphone sweepstakes: HP's Wi-Fi, RIM's unusual keyboar Sidekick's sleeker design. But for most users none will be as sma a buy as PalmOne's Treo 600—or perhaps the much-rumore new Treo 650.

Forbes.com | **Stephen Manes** (steve@cranky.com) was cohost of *Digital Duo* and has been coverin technology for two decades. Visit his home page at **www.forbes.com/manes**.

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Supplemental Income

MICHAEL JOHNSON wants Herbalife, the pyramid vitamin vendor, to be taken a little more seriously. Endorsements from celebrity scientists might—or might not—do the job | BY DOROTHY POMERANTZ

WHEN DAVID HEBER APPEARED RECENTLY ON ABC's *Good Morning, America*, viewers believed the noted nutritionist was pitching his new book, *The L.A. Shape Diet*. That wasn't the only item on his agenda. In whipping up a soy-milk-and-blueberry shake from Herbalife's ShapeWorks protein powder, Heber was also promoting the controversial dietary supplement company.

Heber sits on Herbalife's newly created scientific advisor board, a perch he accepted around the time the multilevel mar keter made a $3 million donation to the Center for Huma Nutrition at UCLA, where he is the director. Herbalife's mone was well spent. The name of Heber's weight-loss plan and h book promote the company's signature product.

Michael Johnson, the new chief executive of Los Angeles headquartered Herbalife, hopes associations like this wi

OMETIME BETWEEN *friday's* MIDNIGHT DIP
AND BREAKFAST ON *sunday...*

ou can be ready with 36-hour Cialis. Cialis (see-AL-iss) is the only erectile dysfunction D) tablet clinically proven to both work fast and work for up to 36 hours.† Cialis gives you up to 36 hours relax and take your time, 36 hours to be spontaneous and respond to your partner when the moment is right.

sk your doctor if prescription Cialis is right for you. See important safety ormation below and Patient Information on following page.

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alis is not for everyone. If you take nitrates, often used for chest pain (also known as angina), or alpha-blockers her than Flomax 0.4 mg once daily), prescribed for prostate problems or high blood pressure, do not take alis. Such combinations could cause a sudden, unsafe drop in blood pressure. Don't drink alcohol excess (to a level of intoxication) with Cialis. This combination may increase your chances of getting dizzy lowering your blood pressure. Cialis does not protect a man or his partner from sexually transmitted eases, including HIV.

e most common side effects with Cialis were headache and upset stomach. Backache and muscle ache re also reported, sometimes with delayed onset. Most men weren't bothered by the side effects enough stop taking Cialis. Although a rare occurrence, men who experience an erection for more than 4 hours iapism) should seek immediate medical attention Discuss your medical conditions and medications with ur doctor to ensure Cialis is right for you and that you are healthy enough for sexual activity.

clinical trials, Cialis was shown to improve, up to 36 hours after dosing, the ability of men with ED to have a single cessful intercourse attempt.

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Patient Information

Cialis®
(tadalafil) tablets

Read the Patient Information about CIALIS before you start taking it and again each time you get a refill. There may be new information. You may also find it helpful to share this information with your partner. This leaflet does not take the place of talking with your doctor. You and your doctor should talk about CIALIS when you start taking it and at regular checkups. If you do not understand the information, or have questions, talk with your doctor or pharmacist

What important information should you know about CIALIS?

CIALIS can cause your blood pressure to drop suddenly to an unsafe level if it is taken with certain other medicines. You could get dizzy, faint, or have a heart attack or stroke.

Do not take CIALIS if you:

- **take any medicines called "nitrates."**
- **use recreational drugs called "poppers" like amyl nitrate and butyl nitrate.**
- **take medicines called alpha blockers, other than Flomax® (tamsulosin HCl) 0.4 mg daily.**

(See "Who should not take CIALIS?")

Tell all your healthcare providers that you take CIALIS. If you need emergency medical care for a heart problem, it will be important for your healthcare provider to know when you last took CIALIS.

After taking a single tablet, some of the active ingredient of CIALIS remains in your body for more than 2 days. The active ingredient can remain longer if you have problems with your kidneys or liver, or you are taking certain other medications (see "Can other medications affect CIALIS?").

What is CIALIS?

CIALIS is a prescription medicine taken by mouth for the treatment of erectile dysfunction (ED) in men.

ED is a condition where the penis does not harden and expand when a man is sexually excited, or when he cannot keep an erection. A man who has trouble getting or keeping an erection should see his doctor for help if the condition bothers him. CIALIS may help a man with ED get and keep an erection when he is sexually excited.

CIALIS does not:

- cure ED
- increase a man's sexual desire
- protect a man or his partner from sexually transmitted diseases, including HIV. Speak to your doctor about ways to guard against sexually transmitted diseases.
- serve as a male form of birth control

CIALIS is only for men with ED. CIALIS is not for women or children. CIALIS must be used only under a doctor's care.

How does CIALIS work?

When a man is sexually stimulated, his body's normal physical response is to increase blood flow to his penis. This results in an erection. CIALIS helps increase blood flow to the penis and may help men with ED get and keep an erection satisfactory for sexual activity. Once a man has completed sexual activity, blood flow to his penis decreases, and his erection goes away.

Who can take CIALIS?

Talk to your doctor to decide if CIALIS is right for you.

CIALIS has been shown to be effective in men over the age of 18 years who have erectile dysfunction, including men with diabetes or who have undergone prostatectomy.

Who should not take CIALIS?

Do **not** take CIALIS if you:

- **take any medicines called "nitrates"** (See "What important information should you know about CIALIS?"). Nitrates are commonly used to treat angina. Angina is a symptom of heart disease and can cause pain in your chest, jaw, or down your arm.

  Medicines called nitrates include nitroglycerin that is found in tablets, sprays, ointments, pastes, or patches. Nitrates can also be found in other medicines such as isosorbide dinitrate or isosorbide mononitrate. Some recreational drugs called "poppers" also contain nitrates, such as amyl nitrate and butyl nitrate. Do not use CIALIS if you are using these drugs. Ask your doctor or pharmacist if you are not sure if any of your medicines are nitrates.
- **take medicines called "alpha blockers", other than Flomax® 0.4 mg daily.** Alpha blockers are sometimes prescribed for prostate problems or high blood pressure. If CIALIS is taken with alpha blockers other than Flomax® 0.4 mg daily, your blood pressure could suddenly drop to an unsafe level. You could get dizzy and faint.
- **you have been told by your healthcare provider to not have sexual activity because of health problems.** Sexual activity can put an extra strain on your heart, especially if your heart is already weak from a heart attack or heart disease.
- **are allergic to CIALIS or any of its ingredients.** The active ingredient in CIALIS is called tadalafil. See the end of this leaflet for a complete list of ingredients.

What should you discuss with your doctor before taking CIALIS?

Before taking CIALIS, tell your doctor about all your medical problems, including if you:

- **have heart problems** such as angina, heart failure, irregular heartbeats, or have had a heart attack. Ask your doctor if it is safe for you to have sexual activity.
- **have low blood pressure or** have high blood pressure that is not controlled
- **have had a stroke**
- **have liver problems**
- **have kidney problems or require dialysis**
- **have retinitis pigmentosa,** a rare genetic (runs in families) eye disease
- **have stomach ulcers**
- **have a bleeding problem**
- **have a deformed penis shape** or Peyronie's disease
- **have had an erection that lasted more than 4 hours**
- **have blood cell problems** such as sickle cell anemia, multiple myeloma, or leukemia

Tell your doctor about all the medicines you take including prescription and prescription medicines, vitamins, and herbal supplements. CIALIS and other medicines affect each other. Always check with your doctor before starting or stopping any medici Especially tell your doctor if you take any of the following:

- medicines called nitrates (See "What important information should you know al CIALIS?")
- medicines called alpha blockers. These include Hytrin® (terazosin HCl), Flom (tamsulosin HCl), Cardura® (doxazosin mesylate), Minipress® (prazosin HCl) or Uroxat (alfuzosin HCl).
- ritonavir (Norvir®) or indinavir (Crixivan®)
- ketoconazole or itraconazole (such as Nizoral® or Sporanox®)
- erythromycin
- other medicines or treatments for ED

How should you take CIALIS?

Take CIALIS exactly as your doctor prescribes. CIALIS comes in different doses (5 10 mg, and 20 mg). For most men, the recommended starting dose is 10 mg. **CIALIS sh be taken no more than once a day.** Some men can only take a low dose of CIALIS beca of medical conditions or medicines they take. Your doctor will prescribe the dose that is for you.

- If you have kidney problems, your doctor may start you on a lower dose of CIALIS
- If you have kidney or liver problems or you are taking certain medications, your do may limit your highest dose of CIALIS to 10 mg and may also limit you to one tabl 48 hours (2 days) or one tablet in 72 hours (3 days)

Take one CIALIS tablet before sexual activity. In some patients, the ability to have se activity was improved at 30 minutes after taking CIALIS when compared to a sugar The ability to have sexual activity was improved up to 36 hours after taking CIALIS w compared to a sugar pill. You and your doctor should consider this in deciding when should take CIALIS prior to sexual activity. Some form of sexual stimulation is needed fo erection to happen with CIALIS. CIALIS may be taken with or without meals.

Do not change your dose of CIALIS without talking to your doctor. Your doctor may lo your dose or raise your dose, depending on how your body reacts to CIALIS.

Do not drink alcohol to excess when taking CIALIS (for example, 5 glasses of win 5 shots of whiskey). When taken in excess, alcohol can increase your chances of get a headache or getting dizzy, increasing your heart rate, or lowering your blood pressure

If you take too much CIALIS, call your doctor or emergency room right away.

What are the possible side effects of CIALIS?

The most common side effects with CIALIS are headache, indigestion, back pain, mu aches, flushing, and stuffy or runny nose. These side effects usually go away after a hours. Patients who get back pain and muscle aches usually get it 12 to 24 hours taking CIALIS. Back pain and muscle aches usually go away by themselves within 48 ho Call your doctor if you get a side effect that bothers you or one that will not go away.

CIALIS may uncommonly cause:

- **an erection that won't go away (priapism).** If you get an erection that lasts more 4 hours, get medical help right away. Priapism must be treated as soon as poss or lasting damage can happen to your penis including the inability to have erections
- vision changes, such as seeing a blue tinge to objects or having difficulty telling difference between the colors blue and green.

These are not all the side effects of CIALIS. For more information, ask your do or pharmacist.

How should CIALIS be stored?

- Store CIALIS at room temperature between 59° and 86°F (15° and 30°C).
- **Keep CIALIS and all medicines out of the reach of children.**

General Information about CIALIS:

Medicines are sometimes prescribed for conditions other than those described in pa information leaflets. Do not use CIALIS for a condition for which it was not prescribed not give CIALIS to other people, even if they have the same symptoms that you have. It harm them.

This leaflet summarizes the most important information about CIALIS. If you w like more information, talk with your healthcare provider. You can ask your doctc pharmacist for information about CIALIS that is written for health professionals

For more information you can also visit www.cialis.com, or call 1-877-242-5471.

What are the ingredients of CIALIS?

Active Ingredient: tadalafil

Inactive Ingredients: croscarmellose sodium, hydroxypropyl cellulose, hypromel iron oxide, lactose monohydrate, magnesium stearate, microcrystalline cellulose, so lauryl sulfate, talc, titanium dioxide, and triacetin.

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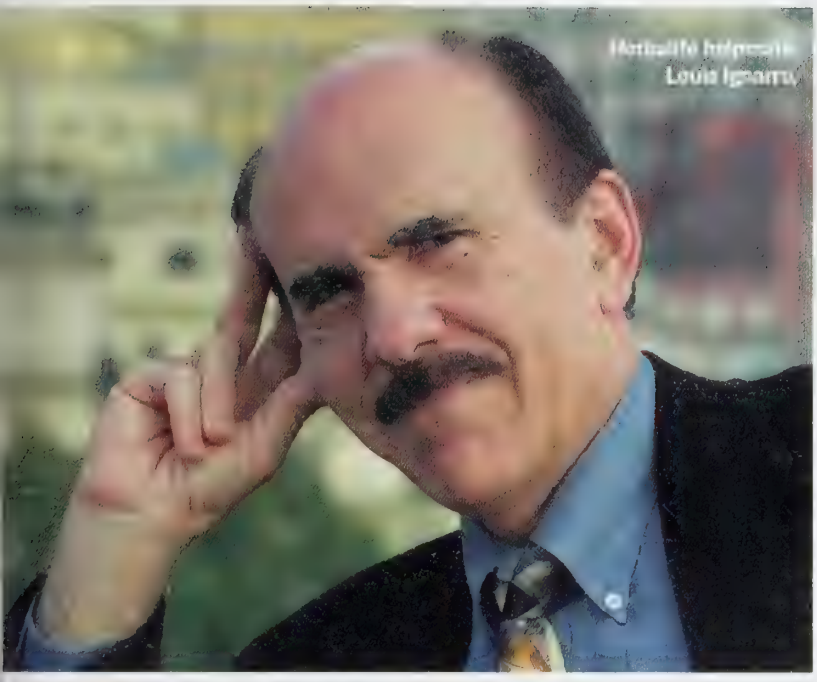
Herbalife independent
Louis Ignarro

nally lend the firm some legitimacy. Johnson, who joined lerbalife last year, is the company's third boss since its founder, lark Hughes, died of an overdose of antidepressant medica-on and alcohol in 2000. As the former president of Walt Dis-ey International, Johnson, 49, knows a thing or two about the ower of image—and of pixie dust. "Herbalife is ready for a cond wind," he says.

Herbalife's newest offering: Niteworks, a powder aimed at dentary folks. It's supposed to boost their cardiovascular ealth. Niteworks was created with the blessing of Louis Ig-arro, professor of pharmacology at UCLA and winner of the 998 Nobel Prize in Physiology or Medicine for the discovery at nitric oxide improves blood flow by increasing the ameter of arteries. The finding led to Pfizer's development of iagra. Now, even if guys don't want to cozy up to their brides, ey can improve the health of their hearts and circulatory sys-ms by taking Niteworks, says Herbalife. It's supposed to be ken every night at bedtime and costs $90 a month.

Niteworks is made from L-arginine, an amino acid that lps produce nitric oxide. Like all of Herbalife's concoctions, iteworks hasn't received a nod from the Food & Drug dministration—but it doesn't need one. Although medicines n be sold only after their safety and efficacy have been proved, etary supplements, such as Niteworks, get a laissez-faire pass. erbalife is careful to make no medical claims for Niteworks—t it can't control what its 1 million distributors say about it.

"Niteworks is really a wonderful product," ys Johnson.

ShapeWorks, meanwhile, is an enhanced et program based on Herbalife's Formula 1, ich has been around since the privately held mpany was founded in 1980. The enhancement consists of a protein powder and a multivitamin, additives occasioning a boost in the price for a month's supply from $34 to $83. To help sell the concoction, Herbalife urges its distributors to shell out $1,000 for a new gadget called a ShapeScan, which is supposed to calculate lean body mass and an individual's protein needs. No surprise, the machine concludes that fat people have a special need for ShapeWorks.

So do fast-food junkies, says Johnson. He wants distributors to pitch ShapeWorks as a cheap and healthy meal replacement for people who eat too many cheeseburgers and french fries. "For under $3, I can feed you a better meal than you're going to get all day," says Johnson, a triathlete in no apparent need of weight-loss potions.

Herbalife is comfortable on thin ice. In the 1980s its health claims were investigated by the FDA. Subsequently, Herbalife removed two products from its line. It has been named in lawsuits for its use of ephedra, a stimulant linked to heart attacks and strokes that was previously a component in some of its weight-loss products. The Federal Trade Commission has received 136 complaints against Herbalife and its distributors in the past two years.

Distributors earn 5% on the sales of people they recruit to sell Herbalife's many products. (Herbalife reeled in $1.2 billion in revenue in 2003 and paid out $415 million of that in commissions to distributors.) A few of these vendors do well, establishing a network of salesfolk under them and becoming rich off the overrides. A very few. The great masses of distributors are not so much vendors as they are customers. Among the bottom 87% of them the average annual gross revenue is but $522.

Most distributors buy products from Herbalife at a 50% discount, resell them at full price and pocket the markup. Many pay back a good measure of their income to Herbalife, which urges its sales force to shell out for sales kits, marketing supplies and inspirational DVDs. Susan Fox, a Phoenix kennel worker, thought she could make a little income on the side and spent $8,000 on Herbalife products and services. She quit in 2002. She says she couldn't sell the stuff—or convince others to peddle it.

Johnson is making the distributors' jobs a little easier. Herbalife, an early infomercial buyer, this year began traditional TV and radio commercials in a few markets. The ads pitched ShapeWorks—not Herbalife.

"Herbalife IS READY for a second wind."

Sales rose 14% to $557 million for the first six months of 2004 after remaining almost flat for four years. Johnson, pleased with the uptick, admits there's still much for Herbalife to prove. "My friends, family—when I first came to Herbalife—wondered what I was doing," he confides. F

Get Your Tickets Fixed

GLEN BOLOFSKY goes a little nuts about violations. That's what it takes to stay one step ahead of City Hall | BY DANIEL FISHER

THE HISTORY OF LIBERTY HAS LARGELY BEEN THE history of the observance of procedural safeguards." When U.S. Supreme Court Justice Felix Frankfurter wrote those words in 1943, he probably didn't have Glen Bolofsky in mind. Frankfurter was talking about an unfair murder rap, not a parking violation. But Bolofsky seems to have taken the jurist to heart. For 21 years he has helped motorists find loopholes and technicalities to beat what he considers one of the most oppressive, arbitrary regimes on the planet: the New York City Parking Violations Bureau. "What we're about is freedom," says the 48-year-old accountant, who runs his company out of a cramped office in Paramus, N.J. "The freedom to drive into the city, park your car and not get ticketed or towed."

Most people might think they already have that freedom—by obeying the signs or keeping the parking meter stocked with quarters. Bolofsky begs to differ. He expects to take in $3 million in revenue this year via Parkingticket.com, a site that guides customers through the sometimes byzantine process of appealing a ticket. Mostly it's a matter of looking for procedural slipups—transposed license-plate digits or the wrong time of day—but a fair number of tickets are outright wrong. The City of New York issues about 9 million tickets a year, bringing in as much as $500 million in revenue, but more than 1 million of those are dismissed or reduced on appeal.

Bolofsky's sworn enemy in this enterprise is Martha Stark, Mayor Michael Bloomberg's commissioner of finance. Seated in her high-ceilinged office in the grimy downtown Municipal Building, Stark says her job is to make Bolofsky's site unnecessary. Following Bloomberg's mandate to streamline city services, her department has made it easier for drivers to track and challenge tickets online and has ordered its administrative law judges to look for the most common errors. "I don't think there's any reason to pay someone to do something yo could do yourself," says Stark.

The ultimate Bolofsky-killer, Stark says, will be the thousanc of handheld Symbol Technologies computers the city is givir agents (only a fraction of tickets these days are issued by poli officers) to replace old-fashioned citation books. Equipped with bar-code reader to scan New York registration stickers and syr chronized with an atomic clock in Colorado, the devices make almost impossible for an agent to make the kinds of errors Bolo sky depends on for appeals. Later units w have Global Positioning System chips t eliminate the common mistake—caught b software on Bolofsky's site—of failing t match the street address to a writte description of where a car was parked.

Bolofsky shrugs. For one thing, he hedged his bets by recruiting customers Washington, D.C. and San Francisco, bus nesses he can expand if he ever has to abar don NYC. For another, he's been through th City Hall shuffle before. While an accour tant at Carnegie Hall in the early 1980s, I grew infuriated at the difficulty of figurir out the city's alternate-side-of-the-stre parking rules. There was a profusion exceptions, including religious holidays lil Ash Wednesday and the Solemnity of th Ascension, but nobody, including tick agents, seemed to know them all. Starting 1983 Bolofsky sold as many as 20,000 ca endars a year at $6.95, promoting them wi an instinctive hucksterism that included contest for the worst parking-ticket nigh mare of the year. One of his best custome was the union representing ticket agen which bought 2,000 or so calendars a yea

The city finally killed Bolofsky's fra chise in the early 1990s by issuing its ow calendar, free of charge. But by then Bolc sky had moved on. First he began selling $1.50 printed guide to beating parking tic

By the Numbers

Meter Mania

The Big Apple counts on half a billion in ticket revenue each year.

36 The number of different agencies with the authority to write parking tickets in NYC.

$85 The average fine.

11% The fraction of tickets thrown out or reduced on appeal.

Source: NYC Parking Violations Bureau.

s called the *Z System*. Then in 1993 he unched a software program he called arm. Despite the fact that "half the busisses didn't have computers yet," he sold 0 programs his first year. One mistake: e listened to a friend and priced a onear license at $295 on the assumption he ould make money on renewals, when could have probably charged more.

Today's Web site is a refinement of arm. For half the price of a ticket, paid up ont, users are prompted to look for the ost likely ways to get a ticket dismissed. The program even spits out court-ready forms if, for example, a customer claims a medical emergency. Bolofsky refunds the money if the ticket isn't dismissed; there have been some complaints by customers who realize too late they have to pay the ticket, in addition to Bolofsky's fee, while an appeal is being heard.

Bolofsky plans to spend $500,000 this year promoting his site. For all that, he still gets the bulk of his money from businesses in New York, some of which (especially TV stations and delivery firms) get thousands of tickets a year. Bolofsky claims a dismissal rate of 75% among the tickets that are challenged under his supervision. Martha Stark says that 40% of all appealed tickets are spiked; 30% are reduced.

Will Bolofsky survive the Bloomberg administration's reforms? An admitted monomaniac on the subject of parking tickets, he races through calculations. "I've got ten years to change the system—my kids are 6 and 10," he says. "In ten years they'll be driving, so there's no better time than now." F

Looking for the Exit Sign

NICHOLAS GERBER has built a successful mutual fund company. What's the best way to cash out? BY DAVID WHELAN

AT 42, NICHOLAS GERBER IS A LITTLE too young to retire, but he is already thinking about how to sell the business he started nine years ago. It's the management company for Ameristock Mutual Fund, which has attracted $1.8 billion with a stellar record: up 14% a year since 1995, five points more than the market average. His style is to buy out-of-favor blue chips like Sara Lee, Merck and Bank of America, and hold. Turnover is tiny at 5% a year.

Gerber operates t company and does mo of the stock picking fro his home in Moraga, Cal His lean operation mak a nice profit on belo normal management fe The fund runs up annu expenses of 0.76% assets; it has no sales loa

What's his record and that collection of cu tomer accounts—wor on the open market?

Gerber says that wh he floated the idea of se ing the fund advisory fir three years ago, he was fered $30 million up fro plus another $70 million he stuck around until t assets rose to $5 billion. a 40% owner, Gerb would have bank $12 million to $40 milli before taxes; the re would have been sp among employee-par ners, family and frien But Gerber didn't like t price tag, which amount to 2% of assets und management. The pu licly traded T. Rowe Pri Group is worth 3.1% its $206 billion und management; Affiliat Managers Group is wor (market value plus deb 2.6% of its $81 billion.

So Gerber hit on a d ferent cash-out scher two years ago: tu another mutual fund ir an operating compa and have that entity b out Ameristock Corp., fund management co pany. An unconventional approach, to the least.

Along with the flagship value fu Gerber manages the newer and consid ably smaller Ameristock Focused Va Fund. This intense portfolio, with 86%

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its assets riding on just ten stocks, also has a great record, up an average 15.3% compounded annually since inception in 2000. For the same period the S&P 500 is down an average 2.7% a year. But it's volatile: up 60% in 2001, down 19% in 2002, up 27% last year, up 0.8% so far this year.

The idea was to first convert this small, open-end fund into a closed-end. Investors would be given time to redeem, but once the deadline passed, their assets would be locked inside the fund. As with any closed-end, shares in the fund would then trade on a supply-and-demand basis. There is scant precedent for the conversion in fund types. In the best-known case Gabelli Convertible & Income Securities Fund switched from open-end to closed-end status in 1995.

The next step was for this closed-end investment company to become an operating company. It would sell off most or all of its portfolio and invest the cash in financial services businesses—an insurance company, perhaps, or a fund management company. If it decided to buy Ameristock, an independent appraiser would have had to determine the price, Gerber says, since he would be sitting on both sides of the bargaining table.

Again, there is little precedent for the conversion of a closed-end fund to an operating company, if not for the self-dealing. The Bull & Bear U.S. Government Securities Fund was a closed-end fund until it changed its name to Bexil in 1998 and became an operating company in 2000. But Gerber can't cite any examples of investment companies going all the way from open-end status to operating company.

The scheme was laid out in newsletters Gerber sent to his fund customers. As this discussion was going on, assets in Focused Value lurched from $27 million to $52 million; they're now down to $14 million. It is not clear whether investors were reacting to the fund's hot and cold performance or voting with their feet on the proposed Ameristock Corp. buyout.

Either way, the directors overseeing Focused Value had grave doubts. They tabled the idea nine months after it w floated, without putting it to a formal vo But Gerber hasn't thrown in the tow The board has agreed that if he can get t assets of Focused Value above $50 milli again, it will vote on the proposal. Gerb will also hold a shareholder vote, follow by a several-months-long waiting peri so that investors can redeem before t gate slams shut.

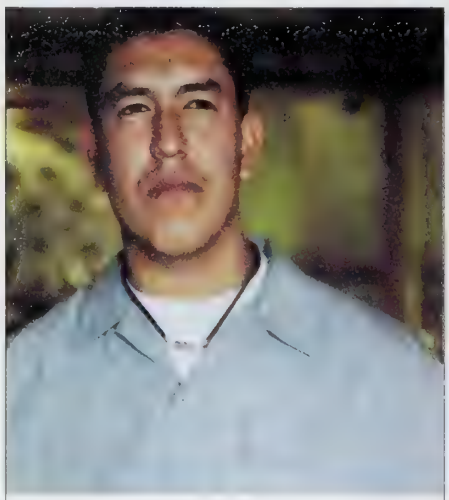
At the moment, investors aren't sho eling in any $36 million to trigger the pla "It seems a little optimistic given the ass and condition of the fund right now," sa Roy Weitz, who publishes the popul online newsletter "FundAlarm."

While Gerber waits for money arrive, he has kept himself busy doi much of what he would do with an ope

Were investors reacting to the fund's HOT AND COLD PERFORMANCE or voting with their feet on the proposed buyout of Ameristock Corp?

ating company. Using the retained prof of the advisory business (an estimat $3.6 million a year before taxes), he h invested millions of dollars in two te startups. One of them, Gigabeam, recen filed to go public. Ameristock Corp. ow a 14% stake in the $22 million (estimate telecom equipment company. The adv sory firm also trades in and out of micr cap stocks that Gerber would never tou with the mutual funds' money. This ye he started an insurance company Bermuda that will soon sell medical ma practice and workers' compensation co erage. His partners don't care that he us their profits as play money, except fo Gerber notes, his father, who would like see more profit distribution.

As for other exit plans, Gerber agnostic. An old college friend suggests raise a hedge fund or take the adviso business public. Gerber isn't so sure. "T tree of life," he says, "has many paths."



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Ice dreams: Peter Franklin dug into his IRA to fund his Cool Dog creations.

IRA Adventures

You want to invest in a hot new business. But your money is sitting in an IRA. Surprise: You can use it | BY ASHLEA EBELING

PETER FRANKLIN TAPPED AN UNUSUAL SOURCE TO fund his new business, which makes hot-dog-shaped ice cream treats known as Cool Dogs: Two investors, one a friend and the other a professional venture capitalist, put in more than $100,000 each from their Individual Retirement Accounts. Later Franklin added $150,000 from his own IRA.

Illegal? Crazy? To listen to some IRA custodians and advisers, you might think so. But the fact is, a traditional IRA (containing original IRA contributions or money rolled from a company plan), a Roth IRA or an SEP IRA can be invested in a private business and even, in certain circumstances, the IRA owner's own venture. As for Cool Dogs, they're hot sellers at BJ's Wholesale Club, Universal Studios in Orlando and Boston's Fenway Park, where they fetch $4.75 each. Franklin, a 53-year-old former marketer for Quantum, expects to sell 4 million Dogs and turn profitable next year. "My goal is a buyout, and with the IRA I get to defer the capital gain," he says.

Today 97% of Americans' $3 trillion in IRA wealth is held by custodians who allow only conventional investments, such as stocks, bonds and CDs. Many mainstream advisers think that's just fine; they believe IRA money should be invested conservatively and worry that clients who pour retirement funds into entrepreneurial ventures could run afoul of tricky tax rules on self-dealing and unrelated business income. "If you want to help a friend [start a business], just give them a gift and don't start messing around with your IRA," admonishes Edward Slott, an IRA expert who runs www.irahelp.com.

But a handful of specialty IRA custodians *(see table p. 128)* and bank trust departments do allow customers to hold alternative investments. And with so much of the public's investable wealth in IRAs and so many folks striking out on their own, these custodians see growing interest in private-company investments—and not just from those with million-dollar IRAs.

Scott Gregory of Superior, Colo. has raised $307,000 from 43 small investors for his new company, Cabinet Jack, which makes a tool that enables one person to install a cabinet alone. A quarter of the investors used IRA funds. "People said, 'I'd love to invest, but don't have the cash,'" he recalls. So he steered them to Trust Administration Services in Carlsbad, Calif., a custodian that allows this type of investment. Cabinet Jack is hardly without risk; Gregory has an agreement to promote his product through the Carpenters Union but is embroiled in trademark litigation over the Cabinet Jack name.

Roth IRAs, in particular, can be a good repository for small investments in speculative startups. There's no tax break for the money going into a Roth, as there is for the money going into a traditional deductible IRA. But after five years and if the owner has reached age 59½, all withdrawals from a Roth are tax free. Tom W. Anderson, chief executive of San Francisco IRA administrator Pensco Trust, says that in 1999 he helped several young tech entrepreneurs open $2,000 Roth IRAs and then invest that money in shares of their fledgling company. After the company went public in 2002, one founder's Roth held stock worth $30 million.

Among new businesses there are more failures than successes, of course, and that fact may dissuade you from using IRA money to fund one. In a taxable account a flop is deductible, either as a capital loss usable against capital gains, or sometimes as an ordinary loss. Losses on investments via sheltered accounts are problematic. A loss inside a traditional IRA is not deductible. A Roth IRA disaster is deductible only if you liquidate all your Roth accounts for less than you put into them, and even then all you get is an often-worthless "miscellaneous itemized deduction."

Is investing an IRA in a new venture crazy? Some advisers think so.

If you do invest your retirement stash in the next sure thing, you'll pay higher custodial fees than with conventional investments. Shop around. Anderson says one client moved to Pensco from the trust department of a big bank that was charging him $45,000 a year in administrative fees for an IRA holding a commercial building worth $4.5 million. Now he pays $2,500 to Pensco. (Its minimum is $150.)

The costs don't stop there, however. You'll also have to pay for annual appraisals of any hard-to-value investments so the custodian can report that value to the IRS. And the IRA owner, not the custodian, is legally responsible for making sure he isn't violating IRS rules. That means you may need to hire an outside lawyer or CPA, too, particularly if you're investing in your own business.

Investing in your own (or a close relative's) venture can get tricky. While the law doesn't ban investments in a private company, it does prohibit certain self-dealing transactions between an IRA and a "disqualified person" (the IRA owner, his parents, his child or even a descendant's spouse). Penalties for self-dealing are onerous—for example, all the money in a traditional IRA

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becomes taxable as of the start of the year of the violation. In the case of a Roth, all the earnings become taxable.

The basic rule is this: An IRA can only be invested directly in a business if the owner of the IRA and his direct relatives own less than 50% of that business. But there's a de facto exception for new ventures. At the point you are about to start a business, you don't yet own any of it. So you can use IRA funds, in unlimited amounts, for the startup financing. This sounds like hairsplitting. But Ft. Worth, Tex. estate lawyer Noel Ice—who is no fan of this gimmick—says it works, based on the 1996 Swanson Tax Court case.

The self-dealing rules create additional complications if you're planning to work for your business, since you can't set your own pay. Patrick Rice, a real estate broker who runs www.iraresource.com, recently helped two couples use their IRA money to buy businesses—one a bed-and-breakfast, the other a convenience store. The couples each set up a limited liability company, owned 90% by the IRA, to acquire the property. An unrelated outsider bought the other 10% of the LLC and became its manager. That person then hired the couple to run the business and set their compensation—a key to making this kosher.

A similar structure may work if you want your IRA to own real estate used by your business. The IRA owns 90% of an LLC that owns the property. The rent is set at the market rate by an outsider who has a 10% interest in, and management authority over, the LLC. (Watch out: If the LLC acquires the property partly with debt, or the bed-and-breakfast has profits, the IRA might have to pay unrelated business income tax.)

Some lawyers worry that suc increasingly common LLC maneuve could lead to trouble. The IRS might as Is that outsider truly independent or the IRA owner really controlling th deal? "You can easily have a proble develop as time goes by if you get to cocky or sloppy about how you are usi the assets or who is making the dec sions," warns Michael Delgass, a ta lawyer with Day, Berry & Howard i Greenwich, Conn.

The IRS has reason to be suspicious. recently listed as an abusive tax shelter strategy promoted by Grant Thornto among others, that (the IRS alleges) use sweetheart deals between related parti to stuff extra business assets into a Rot where they could grow tax free.

To play it safe, says Robert Keebler, a accountant with Virchow, Krause & C in Green Bay, Wis., split up your IRA, wi one account holding traditional inves ments and the other any investmen where self-dealing might become a issue. "You don't want to poison th whole IRA," he says. You can also apply the Department of Labor for a "prohi ited transaction exemption." This tak about six months and can cost up $10,000 in lawyer's fees but could b worth it if enough money is at stake.

Also, think long and hard abo whether you want to shelter what could a capital gain. Putting your Cabinet Ja shares into an IRA (of the non-Roth va ety) will convert the gains on them in ordinary income. You might be better investing from a taxable account. In th case you get a deferral until you unload t shares, and when you cash out, you pay t at the favorable capital gain rate.

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1 Guard your trash from theft by shredding documents and receipts. Thieves can build an alternate identity using the mail you throw away.

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EQUITIES

Unexploded Ordnance

Bombs that could go off on corporate profit-and-loss statements: taxes that may be due someday on foreign earnings.

BY MICHAEL K. OZANIAN

WHAT THE ACCOUNTING GODS give, the accounting gods can take away. The Financial Accounting Standards Board, the profession's rulemaking body, is thinking about forcing U.S. companies to reserve funds for future taxes that would be due on foreign earnings if and when those earnings come ashore. While it's unclear whether the plan can muster enough support to pass the seven-member board this year, the concept is in deliberation. With number-crunching rectitude popular, the plan could well take effect soon.

And that could do a lot of damage to companies that make most of their profits abroad. Some multinationals, in fact, make all of their income abroad *(see table)*.

U.S. companies pay U.S. income tax on earnings of their foreign subsidiaries only when those earnings are sent back home. On the theory that those profits will be repatriated in the distant future or maybe never, present FASB rules permit the parent to reserve nothing now for those future tax liabilities. A FASB about-face on the subject, says Jack I. Ciesielski, a Baltimore money manager who pens *The Analyst's Accounting Observer* newsletter and figured out the impact "would kill an ersatz growth source and potential earnings management tool."

How much damage would be done to a company's bottom line by a rule change? That is hard to gauge because international taxation is so complex and the relevant figures are not disclosed to shareholders. The U.S. corporate income tax rate is 35%. However, foreign income taxes can be credited against the U.S. tax bill. Thus profits made in a high-tax nation like Belgium might

Doing a Little Too Well Overseas?

These S&P 500 companies benefit from a rule letting them avoid reserving funds for potential U.S. income tax due on their foreign earnings.

	EARNINGS[1]		STOCK PRICE		
Company	Untaxed foreign/ total[2]	Total ($mil)	Recent close	52-week high	P/E
Xilinx	377%	$47	$25.49	$45.40	26
Illinois Tool Works	156	2,775	92.65	96.70	24
Starwood Hotels & Resorts	155	503	45.08	46.65	29
Qualcomm	138	627	39.33	39.33	41
Pfizer	131	18,357	32.74	38.89	31
Guidant	128	1,617	62.70	73.70	33
Schering-Plough	123	3,825	19.03	20.10	NM
Allergan	116	183	75.43	92.61	64
Texas Instruments	113	653	18.71	33.98	19
Waters	112	438	44.52	49.80	28
Jabil Circuit	106	196	20.58	32.40	30
Symantec	104	284	48.81	50.88	40
Paccar	102	1,072	63.79	63.79	16
Toys 'R' Us	101	384	16.64	17.44	26

Prices as of Sept. 7. [1]Three-year cumulative earnings from continuing operations. [2]Estimated untaxed foreign earnings as percent of total earnings. NM: Not meaningful. *Sources: RG Associates; Reuters Fundamentals via FactSet Research Systems.*

ıcur no further burden on being re-
ıitted back to New York; they have al-
ady been hit up for 35% or more and
ouldn't give rise to additional U.S. tax.
ut there would be a U.S. tax due on
rofits that, by dint of either tax shel-
rs or country of origin, have been only
ghtly taxed overseas.

In a globalized economy a lot of prof-
s are at stake. Last year the cumulative
tal of untaxed foreign earnings for S&P
0 companies went up by an estimated
38 billion, an amount equal to 20% of
ıeir earnings from continuing opera-
ons (these figures omit businesses di-
sted or folded).

For the moment the debate has only
do with how to report profits
shareholders. Setting up a reserve for
deferred tax liability does not increase
corporation's cash outlays. However,
ere is nothing to stop Congress from
ıanging the law to collect tax on un-
patriated foreign earnings. Senator
hn Kerry wants Congress to do
st that. (He would allow profits al-
ady parked abroad to be sent
ome and taxed at a 10% discount, pro-
ding a one-time revenue boost to the
easury.)

To make up our roster of potential
sers under the FASB proposal, ac-
ounting watchdog Ciesielski scanned
e footnotes of S&P 500 companies. He
und 99 that had untaxed foreign earn-
gs in each of the past three years. For
4 of the companies, estimated untaxed
ıntaxed by the U.S., that is) foreign
ırnings over the past three years ex-
eded aggregate net income during the
me period.

Take chipmaker Xilinx, which gets
ıe-third of its $1.5 billion in sales from
ıtside the U.S. During the past three
ars the company's net income totaled
47 million (including a loss of $114 mil-
on in 2002). Over the same period Xil-
x's balance of untaxed foreign earnings
se by $178 million. Depending on its
fective U.S. and foreign tax rates, it
ıight have seen its profits more than
iped out by a FASB rule demanding a
serve for the future liability. Xilinx
eclines to comment on Ciesielski's
ıalysis. F

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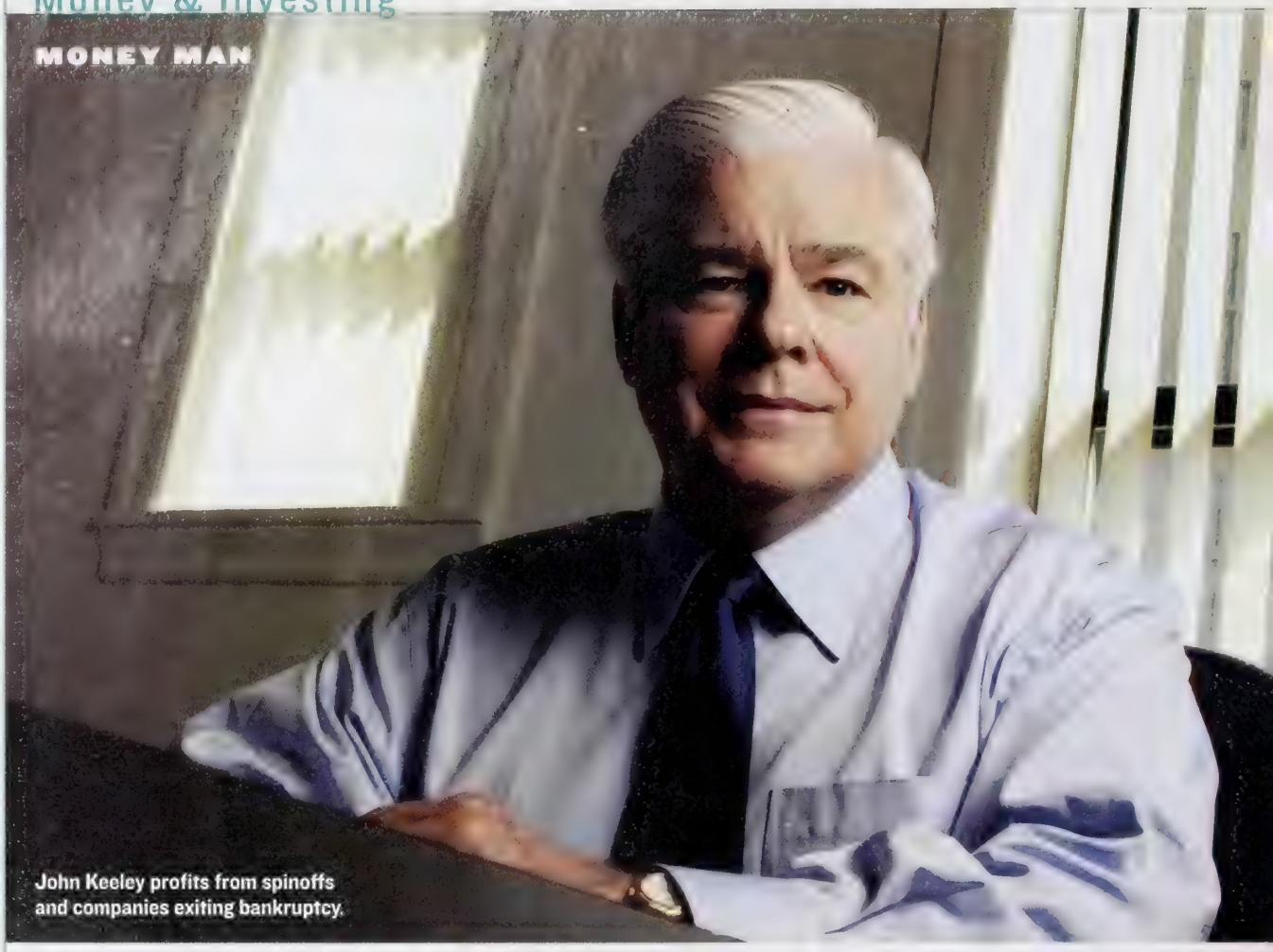

John Keeley profits from spinoffs and companies exiting bankruptcy.

Plucking Flowers From the Wall

Over a 38-year investment career, John Keeley has become expert at finding valuable companies that Wall Street doesn't like | BY ANDREW T. GILLIES

JOHN KEELEY, MANAGER OF THE $170 million Keeley Small Cap Value Fund, likes being a value guy: "You probably make fewer mistakes than you do in the growth area," he muses. "There are fewer moving parts."

Here's how Keeley, 64, keeps it simple. First, he largely ignores technology and health care stocks. Second, he limits his buying to five kinds of companies: those coming out of bankruptcy, those looking very cheap relative to book value (excess of assets over liabilities), spunoff subsidiaries, utilities, and converted thrifts and mutual insurance companies. These days Keeley's fund, a Forbes Honor Roll member *(see Sept. 20)* holds 114 stocks. Not quite half fall into the spinoff category.

It has been a winning formula for Chicagoan Keeley. The University of Chicago business school graduate began his career in 1966 as a financial analyst the pension department of Standard Oil Indiana (now part of BP). After three mo jobs in the investment business, founded Keeley Investment Corp. in 19 Keeley Asset Management, started f years later, now manages $1.2 billion. T Keeley Small Cap Fund has returned 14 annualized since its launch in Octob 1993, versus 10% for the S&P 500.

When jewelry retailer Zale Co emerged from bankruptcy in 1993, t taint of going bust scared away mo investors. Concluding that Zale's ba business was intact, Keeley bought in M 1994. When he got out in November 20 the stock had risen nearly fivefold. A mo recent ex-bankrupt still in the fund: J Global, a manufacturer of mining equi ment whose profitability has jump along with prices for copper and oth ores and minerals.

Keeley says he caught the spinoff b in the late 1960s, watching closely

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entrepreneur Charles Tandy unloaded Pier 1 Imports and several other nonrelated retailing enterprises from his Tandy Corp., whose main operation was the Radio Shack chain. "Nobody really knew much about these companies," Keeley recalls, "and they turned out to be pretty good stocks."

Keeley subscribes to the *Spinoff Report* from Horizon Research Group in New York. He looks for healthy cash flow (in the sense of net earnings plus depreciation). One of his current favorites is Levitt, a Florida builder of single homes and planned communities. This is the descendant of the firm that entered the history books by erecting "Levittowns" for returning World War II veterans.

Until December 2003 Levitt was a subsidiary of Florida thrift BankAtlantic Bancorp. As a result, $440 million (market capitalization) Levitt gets scant attention in the investment community. Just five analysts cover the stock, and none is from a big New York brokerage house.

Over the past three years Levitt has turned in robust annualized growth in sales and profits of 39% and 56%, respectively. Keeley, impressed by the firm's backlog, thinks more of the same is forthcoming. At $23 the stock sells for eight times trailing cash flow. It's also at seven times the profits Keeley expects for 2005.

In the late 1980s Keeley got wise to another category of unloved stock when several mutual savings banks in Chicago converted to become publicly traded. Like the spinoffs, the thrifts entered the stock market without many fans and, as a result, were inefficiently priced. One winner from that Chicago group was Cragin Federal, a mutual that in 1991 sold shares to depositors at a 45% discount to tangible book value. Keeley bought the stock in the mid-teens shortly after the offering, and two years later ABN Amro swooped in to acquire the bank for $38 per share in cash.

Keeley gets a calendar of anticipated mutual-to-stock conversions from SNL Financial in Charlottesville, Va. Don't buy stocks of convertees willy-nilly, he says. Low price-to-book ratios remain important, if harder to find these days. SE Financial, the holding company for Philadelphia's St. Edmond's Federal Savings Bank, came out at $10 last May and still trades around there. Its book value per share: $13.

In the last 15 years 70% of converted thrifts were acquired.

Unlike other public offerings, Keeley explains, the point of mutual conversions isn't to raise equity capital but rather to prime the company for an acquisition. In the last 15 years 70% of thrifts that have converted have been bought. Thus the incentive is to price the offering low, not high. "This is probably the cheapest entry point the stock will ever trade."

Another good sign is a bank's plan to start a cash dividend right away. Better still: a plan by the management to buy shares. Buybacks also have the effect boosting earnings per share and sha holder equity. Since New Jersey's Huds City Savings converted in 1999, its ma agement has bought back 55 milli shares, or half the stock sold in the init offering. Meanwhile the stock surged—Keeley bought at a split-adjust $6 in July 1999. It now goes for $35.

Keeley now favors NewAllian Bancshares, the holding company NewAlliance Bank, Connecticu second-largest savings bank with $ billion in assets. Since an April pub offering, shares of the New Haven-bas thrift have drifted downward to tra just above book value. If they do acquired, Keeley notes, the price is lik to be just under two times book.

What about stocks that are cheap ative to their book value? These are sca nowadays, with the average stock tradi at 3.5 times book. But they can be four Example: Phoenix, a 153-year-old insu ance company and money manag catering to the affluent. This is the fi that a few years ago ran a memorab series of ads portraying rather smu looking rich people, such as a wom who "earns more than her CEO hu band." Alas, Phoenix's bottom line has been so golden, and the market beaten the stock down to just half book value of $20.30 per share, w below its industry multiple of 1.5. Keel suspects a bigger competitor might b Phoenix at a slight premium to book.

Keeley's interest in utilities, whi make up 7% of his holdings, is a rece one. With deregulation, he says, "they into things they shouldn't have." But the companies refinanced and wrote bad investments, Keeley saw opportu ties. He still likes CMS Energy, which serv up gas and electricity to 6 million cu tomers in Michigan.

If you don't want to pay the 4.5% sa load to get Keeley's fund, buy some of t stocks it owns *(see table)*.

Keeley's Lonely Hearts Club

His Small Cap Value owns unloved stocks like these. For instance, companies that are cheap in price-to-book terms or spinoffs from unlikely parents.

Company	PRICE Recent	PRICE Change from 52-week high	Price/ book	P/E (est)[1]	Market value ($mil)
CMS Energy	$9.57	-3%	0.9	NA	$1,548
Conseco	17.34	-28	1.0	11	2,606
Joy Global	31.00	-3	3.6	20	1,570
Levitt	22.55	-16	1.6	7	440
NewAlliance Bancshares	13.63	-13	1.1	25	1,577
Phoenix	10.31	-29	0.5	13	975
Willbros Group	13.97	-13	1.4	52	295

Prices as of Sept. 7. [1]Next 12 months. NA: Not available.
Sources: FT Interactive Data, Reuters Fundamentals and Thomson First Call via FactSet Research Systems.

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STOCK FOCUS

Wheel Bargains

Despite overcapacity, heavy discounting and rising fuel prices, auto stocks might be a good buy | BY SUSAN KITCHENS

THINGS LOOK GLOOMY FOR THE auto industry. Interest rates are on the rise and gas prices are high. Analysts are slashing sales forecasts for Detroit's biggest car companies; an inventory overhang is forcing Ford and General Motors to cut fourth-quarter production.

If you sell cars for a living, this is bad news. If you're a contrarian investor, auto stocks are starting to look interesting.

Value investor Irwin Michael, who manages $575 million at ABC Funds in Toronto, recently took a big stake in General Motors in each of his three funds. Michael isn't especially keen on most of GM's business prospects, but there are a few things Wall Street is missing, he says.

One is GM's pension fund, which last year posted a $300 million surplus as a result of contributions of cash and stock and better-than-expected returns. This, after being underfunded by $18 billion at the end of 2002. To be sure, the fund is solvent only because GM borrowed $13.5 billion to chip in to it, and that money has to be paid back. But the dark cloud of uncertainty has lifted from this liability.

Another positive is the 11 new GM models being introduced in 2004, including the Chevy Corvette and Equinox sport utility vehicle. Yet another: GM is outmaneuvering Volkswagen to become China's favorite carmaker, Michael says.

GM makes more money in finance than it does with automobiles, but that is fine with Michael. General Motors Acceptance Corp. contributed almost two-thirds of the company's profit in the three months ended in June. GMAC's net income was $860 million for the quarter, its best ever.

"You don't want to see an erosion of their market share," Michael says, "but they still made $2.36 a share,"—robust enough to pay shareholders a 4.6% yield. Michael says GM's free cash flow (net income plus depreciation, minus capital expenditures) is more than adequate to cover its dividend. GM currently sells at a 13% discount to its book value and at six times Michael's 2004 earnings forecast of $7 per share.

Wall Street is worried about Ford Motor's costs. Harbour Consulting, a Troy, Mich. firm that monitors productivity in the auto industry, says it takes Ford an average of 25.4 labor hours to assemble a vehicle in its North American plants versus 20.7 hours for Toyota and Honda. Nevertheless, Ford is also getting some attention from value investors.

Brian Bruce, head of equities at Panagora Asset Management in Boston, points out that Ford is getting costs under control by closing several plants and making greater use of the remaining ones.

"If you're thinking long term, these are problems that can be worked on," says Nicholas Gerber, comanager of the Ameristock Mutual Fund *(see p. 122)*. Gerber expects Ford to save money as suppliers such as Delphi and Visteon work to loosen labor rules, increase production efficiencies and pass on some these savings to the automakers. Gerb also thinks Ford's steps to restructure pension plan are a good move. Ford ha 2.8% yield and sells for 11 times traili 12-month earnings.

Things are also looking up for t Chrysler arm of DaimlerChrysl Through August it was the only one Detroit's traditional Big Three to show sales increase in the U.S. The new Chrys 300 sedan and Dodge Magnum spo wagon are off to a fast start. This fall a n Jeep Grand Cherokee SUV and Dod Dakota pickup will arrive in dealership

Toyota edged past Ford last year become the second-largest vehicle man facturer in the world. Gerber says that long as gas prices remain high, forei automakers, which are better position in small cars, may be able to win busin in this segment. In June 2003 Toyo launched its Scion line of fuel-efficie small cars ($13,000 to $16,500, includi delivery; 29 to 37 miles per gallon on t highway). Next year, Scion's first full ye of nationwide distribution, Toyota expe to sell 125,000 of these vehicles.

Toyota, which trades at 12 tim trailing 12-month profits, is che relative to both the S&P (19 times) and t Japanese market (27). As one of the bett managed companies in Japan, Toyota is a bad way to play that nation's continui economic and stock market recovery.

Motor Town

Americans love their cars, but they don't love auto stocks—no matter where a company is headquartered. All these carmakers sell at below-market multiples. Cost-cutting, new models or a generous yield makes each attractive.

Company	PRICE Recent	Change year-to-date	P/E 2005E	Dividend yield	Market value ($bil)
BMW	$42.05	-8%	10	1.7%	$26.2
DaimlerChrysler	42.69	-8	11	4.3	43.2
Ford Motor	14.56	-11	7	2.8	26.6
General Motors	43.14	-19	6	4.6	24.4
Honda Motor	24.84	10	12	0.7	46.7
Hyundai Motor	43.88	4	6	2.0	9.6
Nissan Motor	21.86	-3	10	1.8	44.8
Toyota Motor	78.15	13	10	1.0	129.9

Prices as of Sept. 8. *Source: Reuters Fundamentals via FactSet Research Systems.*

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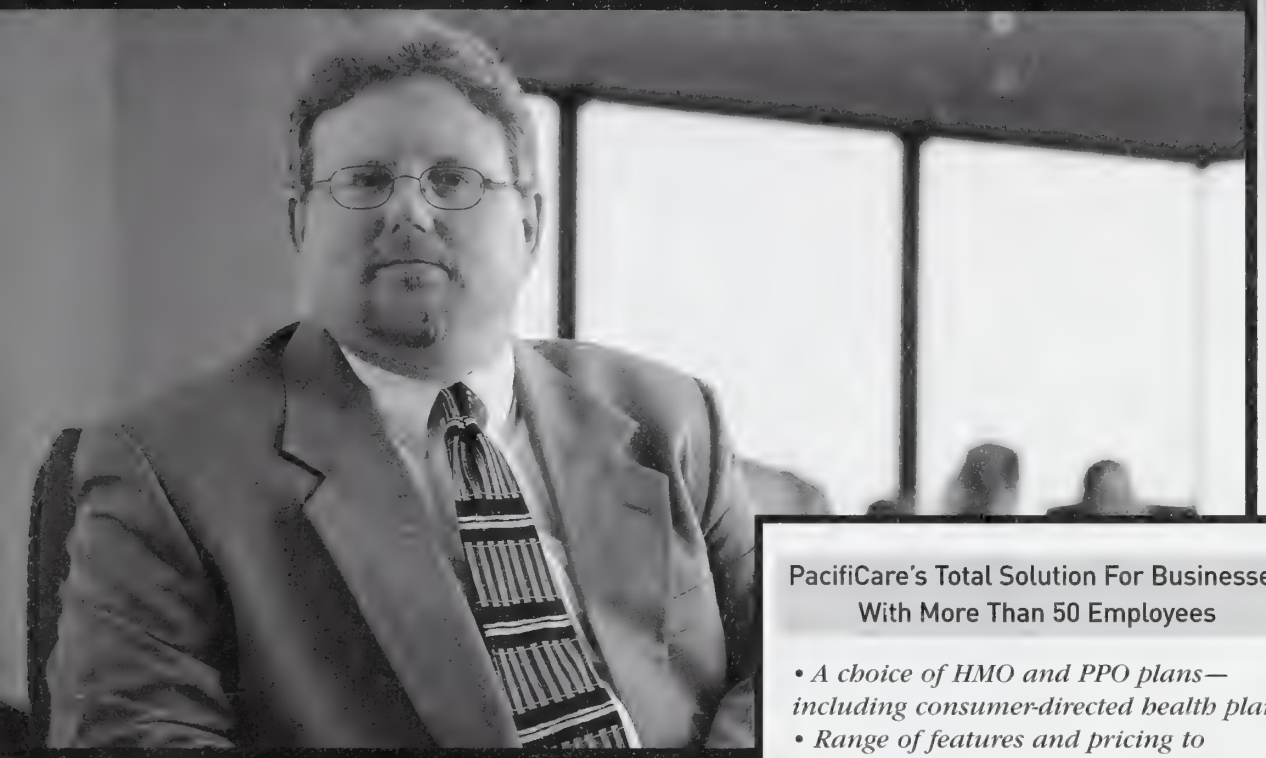

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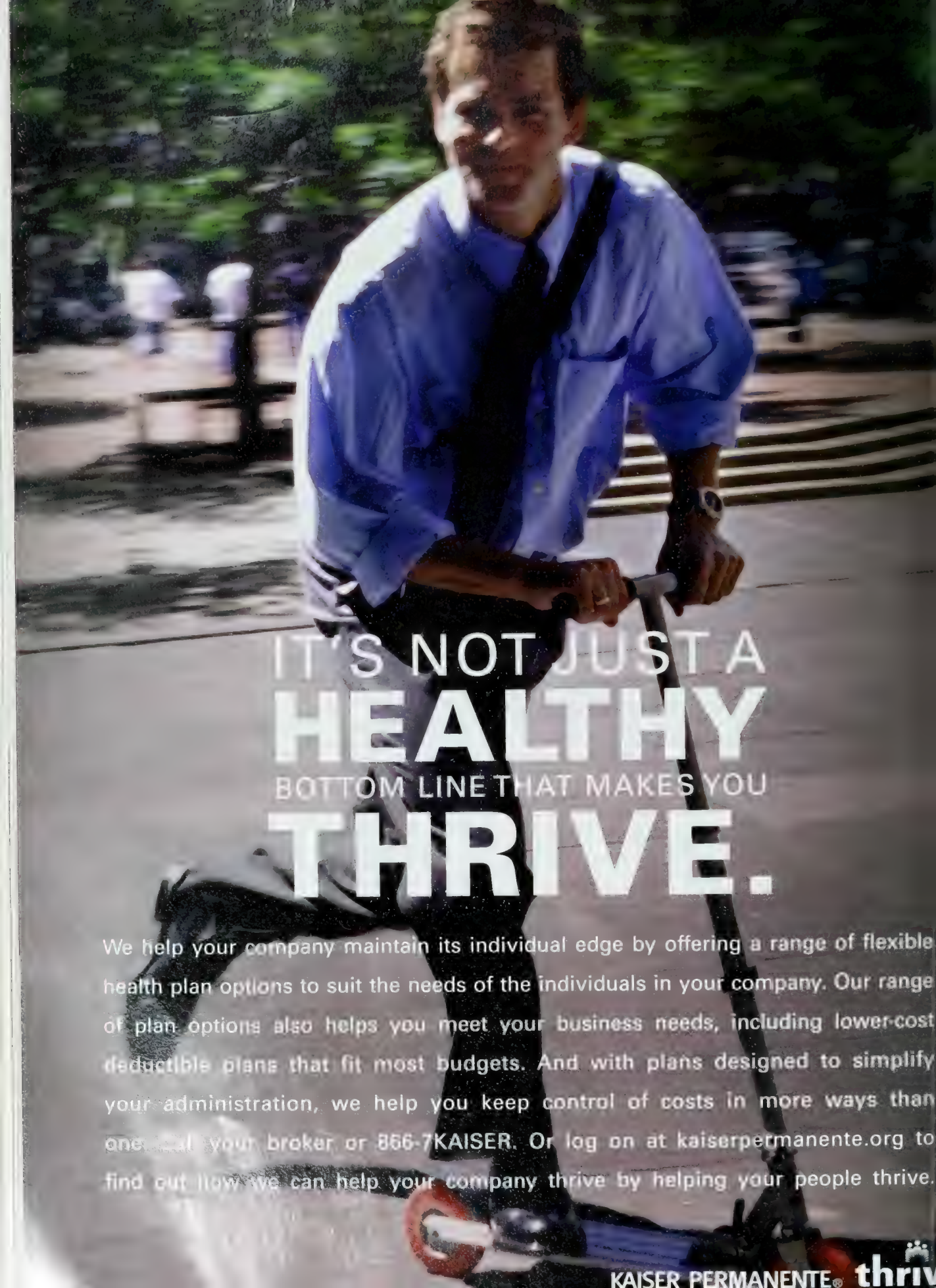
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Pizza Dough

This has not been a banner year for initial public offerings, Google notwithstanding. **DOMINO'S PIZZA (I4, DPZ)** went public in July at the same price where it lies today. In a dormant stock market Domino's hasn't helped itself with a 4% earnings dip, to $34 million, in the year's first half, on $172 million in revenue.

The uninspiring performance at the second-largest pizza chain (behind Yum Brand's Pizza Hut) has a lot to do with the rising price of cheese, now averaging $1.68 per pound, up 50% from last year. Blame for the cheese dilemma includes everything from a shortage of the hormone that stimulates milk production to a ban, occasioned by mad cow fears, on importing Canadian dairy herds. This is a big deal for a company that spends 30% of food costs on the stringy stuff. But the cheese problem appears to be an anomaly, and Credit Suisse First Boston analyst Janice L. Meyer projects a 17% drop in cheese costs next year.

Another reason Domino's stock should wake up, she says, is that the company plans a sizable 33% increase in national advertising spending. Right now the chain has a piddling 1.5% growth in same-store sales. Meyer projects that will double by next year. Plus, Domino's is poised to add to its 2,500 overseas stores, exploiting ripe markets in the United Kingdom, France and Japan. The stock offering provides some financial flexibility. The company, which has a junk-level B– rating from Standard & Poor's, used a third of the $339 million IPO proceeds to retire debt.

The 7,500-outlet Domino's has a $1.8 billion enterprise value (market cap plus debt, minus cash), up from the estimated $1.2 billion value based on what Bain & Co. and other investors paid in 1998 to founder Thomas Monaghan. The buyout firm, still in control, has every motivation to get the stock up.

Domino's stock is valued at 12.5 times estimated 2004 earnings. That compares with an average of 16 for fast-food companies with similar national cachet (McDonald's, Wendy's, Yum). —*Christopher Steiner*

In the Cards

Greeting cards are a stable, mature industry dominated by privately held Hallmark and second-place **AMERICAN GREETINGS (24, AM)**. Nevertheless, Brian W. Foote, analyst at Independent Research Group, believes American Greetings should do well. It has tackled costs by shrinking the work force 19% since 2001. For the fiscal year's first quarter, ended in May, net income dropped 79% to $4.2 million on $446 million in sales—but would have been up 25% if not for debt repurchase costs.

Free cash flow (cash from operations minus capital expenditures) should be $125 million this fiscal year, says Foote. That means the company could reinstate dividends, suspended in 2001 after an earnings dive. The company goes for 15 times trailing net versus an average 23 for printing/publishing stocks.

—*Andy Stone*

Summertime Blues

PACIFIC SUNWEAR (2I, PSUN), a 960-store mall-based casual clothes chain, has enjoyed scorching results in recent years. For the first half, ended in July, sales climbed 20% to $520 million, net income 60% to $34.3 million. A big store expansion lies ahead. The stock, at a 16 multiple, seems reasonably priced.

JB Hanauer & Co. analyst Eric M. Beder thinks Pacific Sunwear has lost fashion credibility to Aeropostale and others. Worse, Beder says: Chief Executive Greg H. Weaver has sold 699,000 shares this year, 22% of his holdings. The company declines to comment on the unloading. We say short the stock and cover at $15.

—*Daniel Kruger*

Those Bearish Brits

ONE REASON THIS STOCK MARKET IS SO SPIFFY IS that journalists are so dour on it. They reflect and, in fact, promote low investor sentiment. The setting is perfect for a nice rebound. The journalists I have in mind are primarily not from the U.S. but from Europe. But since the stock market is largely global, America's market won't go far in any direction without the rest of the world in parallel. And the rest of the world has economic writers aplenty who are down on the stock market.

In America the scribblers are somewhat mixed, but overseas they're morose, depressed, sarcastic. Just back from the Forbes Cruise for Investors, I took some side time to visit a swath of British business journalists. Simply reading the British media, and there is a lot of it, you can't find one important writer who doesn't think stocks will fall and interest rates will rise markedly. They're consistently bearish. They think British markets will fare badly and American and the other European ones will fare worse. That's a bullish sign for me. I love it.

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Several then wrote about my visit and my optimism and why they think I'm wrong. But none cited arguments that aren't cited by everyone and hence already discounted in pricing. It is fashionable in Britain to think that the media are always uniformly sour on stocks, but I've probed them regularly for years, and it isn't true. Memories are short. In 2000 economic writers were optimistic, specifically on tech. Even in 2002 they could hear a bullish argument. They can't now.

With time they will revert to more optimism, and with it provide motivation for readers to buy. You want to buy before their readers do.

The same is largely true across Europe. In Germany and France, in particular, writers are depressed. There is nothing so pleasing to see as depressed journalists. (Well, maybe depressed, unemployed lawyers are more fun to see. But that's a different story.)

Another reason I like this spiffy market is that so many great companies sell on par to the market's average valuations. Below are four of them. You don't really have to pay extra to get good quality. These are great firms with

basic growth characteristi
and only a whisker of a valu
tion premium to the market
average.

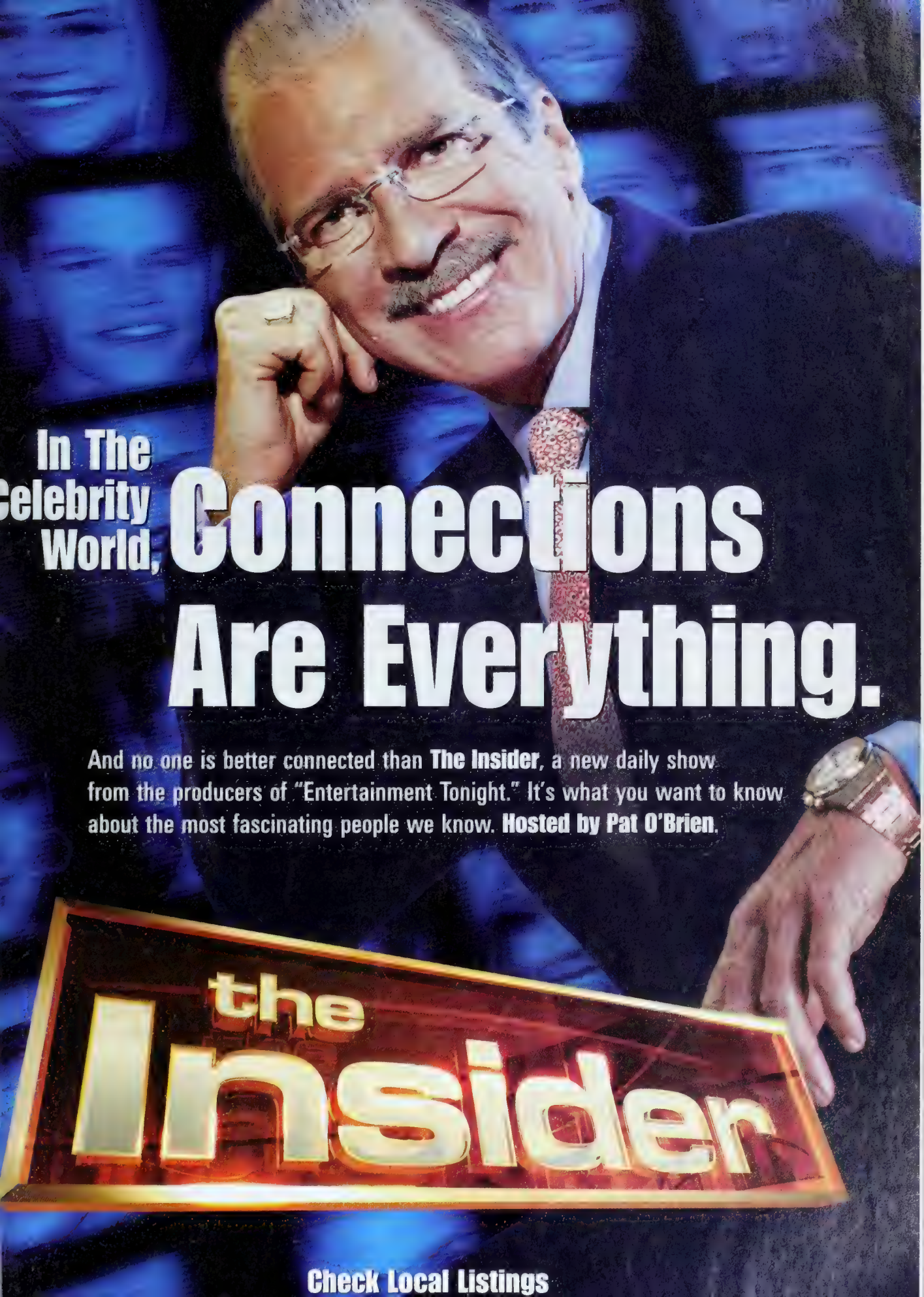
Career Education (34, CEC
is the world's largest for-prof
postsecondary school. It
also fast growing and secon
largest in online educatio
which makes up a fourth
revenue. It specializes in fi
growth fields: data processin
graphics design, business, culinary arts and health care. Wi
81 schools, colleges and universities, 83,000 students a
operations throughout America, Britain, Canada, Fran
and the United Arab Emirates, it is a model of the future
it captures market share from traditional universities. I
price, 19 times expected 2004 earnings, is very reasonab
for a company with so much growth potential and prove
managers.

Charles River Laboratories (44, CRL) is the world's bigge
supplier of lab rats. These are no ordinary animals. They a
genetically engineered with pedigrees to suit customized bi
medical experiments. The company employs 250 Ph.D.
M.D.s and veterinarians to maintain its breeding populatio
and serve its pharmaceutical clients. Animal-rights folks m
not like it, but Charles River's rats ultimately save human liv
and reduce human suffering. Biotech will boom for the ne
decade, and so will Charles River. For a leading-edge heal
care stock, 22 times 2004 earnings is cheap.

Church & Dwight (30, CHD) owns the Arm & Hammer co
sumer brand, and also Trojan, the leading name in condom
Throw in Mentadent and Aim toothpastes, Brillo Pads, Arr
deodorant, Pearl Drops, Pepsodent and more and you have
growing consumer products company that isn't much seen
one. For example, Morningstar miscategorizes its industry
"chemicals" and "industrial materials." That's why you ca
buy it for 19 times 2004 earnings. Expect future margin grow
through increased efficiency in distribution.

Applebee's International (25, APPB) has 1,600 casual restauran
in 49 states. Recent readers know I'm keen on restaurants a
stores in America's backwaters, and no one is bigger in sma
town dining than Applebee's. Wall Street is worried that co
sumers are tapped out. No, consumers are hungry. Applebee's
where the demographics are moving. The price comes
18 times 2004 earnings.

Forbes.com | Kenneth L. Fisher is a Woodside, Calif.-based money manag
Visit his home page at www.forbes.com/fisher.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Rate-Rise Protection

INVESTORS ARE WORRIED ABOUT HIGHER INTEREST RATES, and they've spoken. They have withdrawn $22.6 billion from bond funds in the first six months of the year, according to the Investment Company Institute. No wonder. It's only rational to assume that higher rates and accelerating inflation will erode the value of their bond portfolios.

Sitting in cash and money markets isn't the answer. You can't buy a tank of gas on your earnings from a Treasury bill. Treasury Inflation Protected Securities and inflation-linked corporate bonds are not the answer. They protect against inflation, not against higher interest rates. These are not the same thing. In the mid-1990s we had high rates and low inflation. Investors are concerned this could happen again.

There are bonds to protect you from inflation. But they don't shield you from rate hikes. Luckily, we have securities whose payouts are rate linked.

But there is an answer. Maybe not a perfect one, but a strategy that helps protect investors in this kind of impending storm. Invest in variable-rate securities whose payouts keep pace with rising interest rates. These are what I lovingly call my "hell in a handbasket" investments. If interest rates rise, they won't go to hell in a handbasket with the rest of your fixed-income portfolio. The coupons or dividends of variable-rate securities (which come in both bond and preferred forms) are not fixed.

The newest example is a $175 million **SLM Corp.** (also known as the student loan entity Sallie Mae) bond issued July 8 this year. This has a floor of 4%, which protects you from a rate slide. Should the ten-year Treasury rate go back to last year's historic lows of 3.11%, you'll still clock 4%. For the life of the bond, which matures July 25, 2014, the coupon is linked to 80% of the ten-year Treasury. This means whatever the ten-year rate is in the future, you will be protected. So two years from now, say the ten-year Treasury yields 7%, you will receive 5.6%. The calculation and payment is done monthly and thus truly keeps pace with rate gyrations. This bond is priced at par.

The ten-year Treasury, at 4.2%, now yields so little that you are bumping against the 4% floor. But that shortfall is likely a short-term phenomenon. You're really buying insurance for the next ten years. Odds are that rates will rise. You will be earning less this year than you could on a Treasury, but next year, and for the next eight, the floating rate will probably pay off—and your bond's price should hold up quite well.

What can go wrong? We can have

an inverted yield curve an short-term rates may be highe than long-term, as we last did i 1989 (and in 2000 for just one to ten-year bonds), according t Bianco Research. But inverte curves rarely last long.

Corporate preferreds als are part of this game, and the pay more because they can b called every 30 days—thoug none has been called yet, hopeful sign. The yield is figured out against the highest yiel among the current issue 3-month, 10-year or 30-year Treasury calculated quarterly. Finding these FRAPS (floating rat adjustable preferred securities) in the secondary market ma take a few calls to brokerages. It's certainly worth the effort.

One dandy variable rate security to protect your portfoli in an interest rate storm is a perpetual preferred stock issued b **J.P. Morgan Chase (50, JPMCP)**. The minimum dividend is 5.46% And that's not too bad today. These have a maximum rate o 11.46%. Regardless of what happens to the yield curve, you ar guaranteed to earn just 0.2 percentage points less than th highest-yielding new Treasury. That means that if the ther current 30-year Treasury bond goes to 10%, you will earn 9.8%

This preferred has been with us since 1998, and Chas hasn't called it yet. To be on the safe side, though, be sure yo never pay much more than the original price of $50 per share

Another floating rate preferred, **J.P. Morgan Chase (101, JPM L** outstanding since 1994 and not yet called, has a quarterly div dend that yields 84% of the highest Treasury. It has a 4.5% floo and 10.5% maximum dividend cap—all a bit less generous tha the previous Chase preferred. The short call keeps these pric close to par.

Another veteran FRAPS is a perpetual preferred issued b **Citibank (100, C A)**, with a minimum dividend of 6.34% and max imum of 12.34%. Its rate adjusts to 0.05 points *above* the high est Treasury. It has survived since its 2001 issue without bein called. Don't pay much above the $100 par.

Any of these preferreds would suffer if the issuer's earning fall apart, since dividends can be suspended if the compar lacks the financial ability to pay. Nevertheless, these dividenc are cumulative and are likely to be made current. Moody's rate the two Chase issues A2 and the Citibank preferreds Aa3.

You should put 20% of your fixed-income money in FRAP or other adjustables. Worry some, but not a lot, about cred risk. Interest rate risk is the bigger hazard these days.

Forbes.com

Marilyn Cohen is president of Envision Capital Management, Inc., a Los Angele fixed-income money manager. Visit her home page at **www.forbes.com/cohen.**

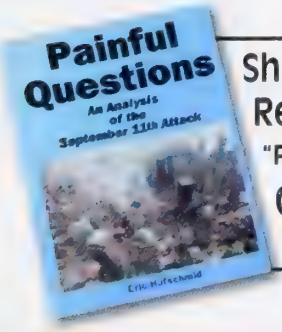
ARE WE SAFER NOW?

The 9/11 Report has been published, but some very troubling questions remain unanswered.

Despite all of the time and all of the testimony, the 9/11 Report does not explain questions raised by "Fire Engineering" Magazine, the Federal Emergency Management Agency, a flight instructor who trained one of the hijackers and others. The new book, "Painful Questions," by concerned American Eric Hufschmid, addresses the issues listed below.

- "No steel building has ever been destroyed by fire." *Fire Engineering Magazine*
- The South Tower fell after only 1 hour. The North Tower fell one hour later. After the initial fireball, neither building burned significantly. The Meridian One Building in Philadelphia burned fiercely for 19 hours and never collapsed.
- Building 7 at the WTC, steel and constructed differently from the twin towers, fell at 5:30. It was not hit by an airplane and had no apparent significant fire.
- Jet fuel burns at too low a temperature to harm steel. (the black smoke indicates that the jet fuel was not even burning at maximum temperature.) And the fires did not burn long enough to harm steel.
- Days later, there were still "hot spots" in the building that exceeded the maximum temperature possible from burning jet fuel, but just the right temperature if explosives had been used.
- The concrete clouds shooting out of the buildings are not possible from a mere collapse. They do occur from explosions.
- The buildings collapsed at the maximum speed of gravity. That is almost impossible without explosives.
- The impact of the airplanes and the resulting fires were way off center. More than 2 sides of the towers and the main center columns were untouched. Why did all three buildings collapse?
- "The specifics of the fires in WTC 7 and how they caused the building to collapse remain unknown at this time." *Federal Emergency Management Agency*
- F-16 fighters are supposed to form an umbrella over Washington in an emergency. The Pentagon was attacked over AN HOUR after the second aircraft hit the WTC. Why were no fighters scrambled?

"I was so impressed with this book and the questions it raises that I will send a FREE COPY to any fire station, police precinct, judge or politician that requests it.
James W. Walter, Jr.



Should The 9/11 Investigation Be Re-Opened?
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"Painful Questions," By Eric Hufschmid, Is Not Available In Any Store.

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The Fearful Economy

RECENT ECONOMIC INDICATORS RESEMBLE THAT OLD chestnut about the weather—if you don't like it today, just wait until tomorrow. This volatility, coupled with the lack of discernible trends, has kept stocks on edge for months.

Will the stomach-churning swings in the economic data end soon? Probably not. The invasion of Iraq has opened Pandora's box, unleashing a plethora of troubles. The ponderable ones are risks that can be quantified, managed and insured or hedged against, at a cost. The imponderables generate uncertainty. Beyond the quantifiable pale, uncertainty forces even the shrewdest executives to take a leap in the dark. Operating under the increasing weight of risk and uncertainty, the economy, not surprisingly, has hit a soft patch.

One reason economic statistics are weak: Businesses are hoarding cash and stockpiling commodities. Can we blame them?

Increased levels of risk and uncertainty cause people to make adjustments. We have to look no further than the reaction of Floridians to the hurricane alerts that have gone out in recent weeks. With the first signs of trouble, people in the prospective path of destruction go on hoarding and stockpiling sprees.

The rush for provisions has also accompanied the increased level of risk and uncertainty associated with the so-called war on terrorism. Indeed, U.S. businesses have taken hoarding to new levels. Moody's has reported that the ratio of liquid financial assets to debt on the balance sheets of U.S. nonfinancial companies has recently hit a 35-year high.

Given the course of events in the Middle East, the hoarding of cash has been prudent. How has it been accomplished? By cutting costs and improving productivity, businesses have increased cash flow. They have hung on to the cash by shying away from capital expenditures.

While the hoarding of cash has dramatically improved the balance sheets of businesses, it has left the economy starved of fuel. For one, employment growth has been sluggish. Also, investment—the big swing factor that gives rise to booms and busts—has been flat.

In addition to accumulating cash hoards, businesses have attempted to increase their stocks of commodities. They don't want to be caught short. Their quest for liquidity in the commodity sphere has thrown most commodi-

ties into a bull market phas
This is evident in their price
When inventories are lower tha
desired, spot prices exceed tho
in forward markets, becom
much more volatile than fo
ward prices and exhibit strengt
All of these features have chara
terized most commodity ma
kets in recent months. I can ta
credit for recommending in m
Dec. 8, 2003 column that yo
put 10% of your portfolio in commodities. Since then the Gol
man Sachs Commodity Index has climbed 26%.

Crude oil merits a few more words. Just as private bus
nesses were scrambling to increase their crude inventories, t
U.S. government decided to fill the Strategic Petroleum Reser
to capacity *(see my column of Aug. 16)*. This added competitio
for inventories is one big reason why the speculators jump
into the oil market and why the price of a barrel of oil peaked
$48.66 on Aug. 19.

Wars are expensive and eventually have to be paid for. Wh
makes the current war effort unique is that its scale, scope a
duration are undefined. This injects more risk and uncertain
about future tax increases into the picture.

If all this wasn't bad enough, we must remember that wh
the 2001 and 2003 tax cuts were passed, Congress and the Bu
Administration created a convoluted series of "phase in" a
"phase out" schedules for many different tax rates, credits a
incentives. Consequently, the tax cuts are temporary and t
hikes are already part of the current law.

President Bush has indicated that he wants to make the t
cuts permanent, while challenger John Kerry has pledged to allo
some of them to die a natural death. To further cloud the pictu
President Bush has promised to establish a bipartisan adviso
panel on tax reform, if reelected. The aim of the panel will be
simplify our byzantine tax code. Given the financing requiremen
for the war on terrorism, "tax simplification" will, no doub
become code for "tax hikes." The idea of the temporary tax cu
becoming permanent is little more than a pipe dream. The pro
lem is that we don't know what will be left on the cutting-roo
floor after either a Bush or Kerry Administration takes office. Ta
about risk and uncertainty. No wonder businesses are hoardi
cash and commodities, and investors are hesitant!

Keep your commodity allocation at 10%. And don't expe
the stock market to exhibit much strength this year, no matt
who is elected.

Forbes

Steve H. Hanke is a professor of applied economics at The Johns Hopkins University in Baltimore an
senior fellow at the Cato Institute in Washington, D.C. Visit his home page at **www.forbes.com/hanke.**

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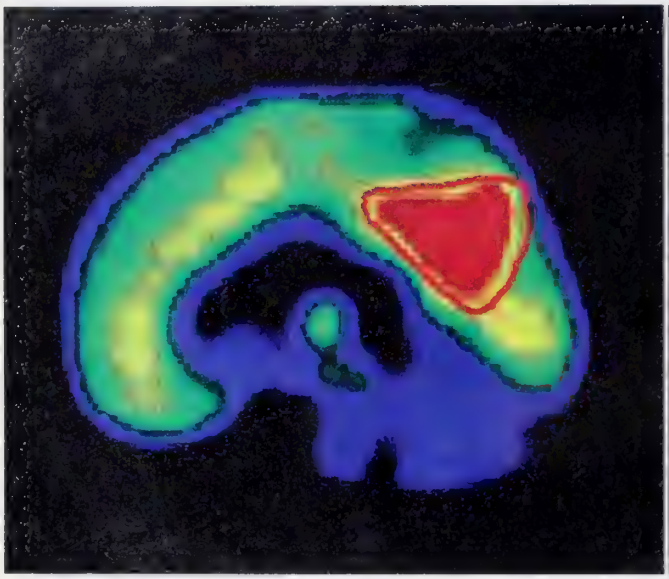
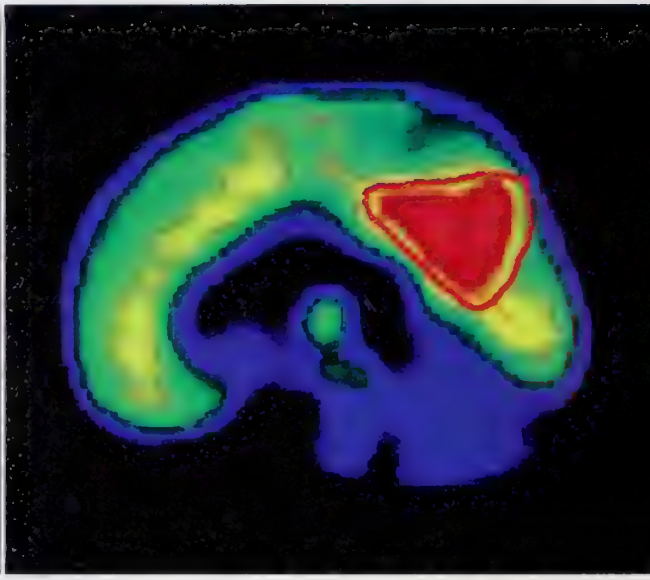
Twilight Zone

Can medicine help revive brain-damaged patients stuck in the netherworld between coma and consciousness? By Robert Langreth





TWO YEARS AGO 18-year-old Gisela Ugalde was on a family trip to Buenos Aires, sitting next to her father as he drove down the highway in a heavy downpour. Their car smashed into a truck that had pulled over. Her father, who wasn't wearing a seat belt, ricocheted off Gisela and into the dashboard. He died instantly. Gisela was left severely brain-damaged and in a vegetative state.

In a last-ditch effort to save her, doctors transferred her to nearby Fleni hospital, where neurologist Esteban Fridman treated her with high doses of the Parkinson's disease drug levodopa, which raises levels of the neurotransmitter dopamine. The hope was that this would restore brain cell activity in the thalamus, a relay station that integrates input from many parts of the brain, helping make consciousness possible. Within weeks Gisela started to emerge. By mid-December 2002, three months after her accident, she was conscious and chatting with her brother, although she had forgotten the entire three years prior to the accident, couldn't walk and couldn't move her left arm. Today, after extensive rehab, she has almost fully recovered and plans to go to college next year.

Ugalde is lucky. Only 7% of people who enter into a prolonged vegetative state have good recoveries. Roughly 25,000 Americans are stuck in a vegetative state as a result of suffering brain damage from a car accident or other trauma, or after their brain has been deprived of oxygen following a stroke or heart attack. Another 200,000 have minimal cognitive function. The odds of recovery drop almost zero after a year of being veget tive. And there are no proven treatment

Faced with these grim statistics, t medical establishment has largely ignor these patients. They are often shipped nursing homes and forgotten. While t drug industry has tested dozens of co pounds to treat the acute phases of stro and brain trauma, only a few medicin for lifting patients out of vegetative stat have been brought into large-scale tria "The travesty is these patients may recovering in subtle ways but no o knows it," says Joseph Giacino, a neur psychologist at the JFK Johnson Rehabi tation Institute in Edison, N.J.

Research provides some reason f hope: Up to 40% of patients written off vegetative may have been misdiagnos and may at least have occasional flicke

f consciousness. Such minimally con-
ious patients, while bedridden and in a
eavy fog, can sometimes answer a yes or
o question, follow simple commands or
ter a few words. If they can do that
uch, they have at least a chance of fur-
er recovery. "We may be able to salvage
me brain function if we can find and
ke advantage of areas of the brain that
ve been spared," Giacino says.

Giacino, Fridman and a handful of
her neurologists and rehabilitation ex-
rts are striving desperately to improve
e odds for such severely brain-damaged
tients. They are using high-tech brain

Brain Dimmer Switch

In the brain of a healthy person *(left)* the cortex is constantly revved up and ready to turn incoming data into higher thought. Minimally conscious patient *(center)* shows hints of cortical activity. In a vegetative patient, crucial areas involved in consciousness are turned way down.

Source: Steven Laureys.

ans on vegetative and minimally con-
ious patients to try to understand why
me recover and others don't. They hope
gain clues to future treatments and
evelop diagnostic tests that can tell when
person is still "in there" even when he
r she cannot communicate. Drug
searchers and bioengineers hope to
ventually find ways to boost patients'
dds of regaining consciousness through
ompounds or devices that spur remaining neurons to send signals more efficiently. In the process, they are shedding light on the very nature of consciousness, a subject that has long been shunned by scientists as unfathomable.

Vegetative patients who have recovered full cognitive abilities say that waking up is nothing like movies make it out to be. British nursery school teacher Kate Bainbridge went into a near-vegetative state for four months starting in June 1997 after a virus caused severe brain inflammation. Recovery was slow and terrifying. She recalls doctors talking to her as she began emerging, but she wasn't able to make sense of their words and couldn't respond because her face was paralyzed.

"It was so scary. I did not know where I was or why I was there or what the date was. I thought I was in prison and I had forgotten how to move," she says via e-mail. After two years Bainbridge recovered enough to live with her parents. Now 34, she is confined to a wheelchair, but can use the computer, read books and play board games without help.

Consciousness is not the all-or-nothing proposition people suppose it to be. Researchers once assumed that the cortex, the information-processing hub of the brain, was always destroyed in vegetative patients. This isn't necessarily the case. Isolated areas of the cortex may still be functional, but damage to crucial brain relay stations disconnects them from the rest of the brain. "There are islands of activity in a sea of silence," says neurologist Steven Laureys from the University of Liège in Belgium, who, using positron emission tomography, has studied brain images of 40 vegetative patients.

Researchers are only just beginning to study minimally conscious patients, but already they have found surprising hints of brain activity. Three years ago Columbia University psychologist Joy Hirsch and neurologist Nicholas Schiff of Cornell University's Weill Medical College teamed up to perform functional magnetic resonance imaging scans on two minimally conscious patients. This specialized form of MRI measures blood flow, indicating which brain sectors turn on in response to sensory stimuli.

Hirsch and Schiff figured that the minimally conscious brains would show some activity in response to stimuli, but not a lot. The researchers had a close relative of the patient record a short narrative about their family life before the injury; then they played the recording during the scan.

The results shocked them. All of the brain regions involved in processing language fired up as if the brain were healthy and normal. "It was haunting," Hirsch says. While the results do not mean that the patients understood the story, they could signal the potential for cognitive life in patients who don't display it. Since then Hirsch and Schiff have confirmed their results on several additional patients—and one of the two original patients has regained consciousness.

Similarly, a PET scan of Kate Bainbridge's brain one month before she started to recover showed surprising levels of brain activity. When (U.K.) Medical Research Council neuroscientist Adrian Owen scanned her brain while she was being shown photos of family members, brain regions that specialize in facial recognition turned on; these areas didn't activate when she was shown nonsense images containing similar colors.

Although there is no way, yet, to revive dead brain cells, attempts are under way to use old Parkinson's disease drugs that boost levels of the neurotransmitter dopamine or mimic its effects. Argentina's Dr. Fridman, for example, has tried levodopa on five minimally conscious and vegetative patients (including Gisela Ugalde), and four have made good recoveries. Fridman has cofounded a small Massachusetts biotech firm called NeuroHealing Pharmaceuticals that plans to begin a 50-patient clinical trial of an undisclosed Parkinson's disease drug this winter. Giacino is leading a federally funded five-year, 180-patient study of an antiviral and Parkinson's disease drug called amantadine in minimally conscious and vegetative patients. Neurologists are also exploring the possibility of implanting stimulators (sold now by Medtronic for Parkinson's disease) deep in the brains of the minimally conscious to boost thalamus activity. It will be at least a few years before we know whether any of these treatments help. F

Busted

Play poker, go to jail? In 20 states it's illegal to play a friendly game at home, even for penny stakes. In 30 others, unless you take precautions, you can be hauled off for "aggravated gambling."

BY STEPHANE FITCH

GUY GARNER AND HIS SIX FRIENDS WEREN'T OUT TO cross the law last January when they sat down for their regular friendly game of poker in a cabin at the Chickasaw State Park near Jackson, Tenn. Garner was the park's manager, after all, and his poker buddies included a retired cop and a school board member.

So they were shocked when their game was raided and their $20 pot confiscated. These otherwise upstanding citizens found themselves embarrassed in the press, paraded in front of a Chester County Court judge and fined $50 each for violating Tennessee's prohibition on gambling. "We were cooking a stew and relaxing," said Garner. "It wasn't a big deal."

If coverage of the World Series of Poker on ESPN has inspired you to host games in your basement, you'd best think twice before strapping on your green eyeshade. Twenty states, including Maryland, Illinois and Utah, forbid you to play at home for money—even penny stakes. Penalties range from misdemeanor fines to felony convictions and jail time for being repeatedly busted for playing high-stakes poker games in private homes—constituting "aggravated gambling." Florida permits home play, but only if the stakes are $10 or less. Other states impose no dollar limit, but make other stipulations. For a complete rundown of state rules, visit www.gambling-law-us.com.

Whatever you do, don't rake the pot. In April last year David Turpin, a member of Washington State University's track squad who was attending the school on a partial scholarship, was arrested and charged with a felony violation of Washington's gambling laws after an undercover agent witnessed him hosting games of Texas Hold 'Em in his apartment and taking 10% of the pots as his fee. Turpin, insisting the money was just enough to cover his costs of hosting, pled guilty to a misdemeanor and paid a small fine.

In states that permit social gambling it's okay for a host to make money from his winnings—but not by any other means. Says Nathan Barankin, spokesman for the California attorney general, "If the person operating the game is charging a fee or receiving gifts in exchange for

Play Nice, Boys

Hosts of home games can offer their guests tournament-quality play by observing a few simple rules: First, play only classic games. At the World Series the only game played is Texas Hold 'Em. "I'm not too interested if they're playing a low-grade game with lots of w cards like we used to play when we were kids," says Richard Pell, 49, an institutional money manager in New York who played poker for a livi after college and still enjoys the occasional game at home.

Hire a dealer. This costs only $100 to $400 a night, says Beth Deighan, president of Casinocareers.com. You can find a dealer in your ar by posting an ad on Deighan's Web site, a kind of Monster.com for the gaming world.

Use only professional-quality goods: Serious games are always played with plastic cards, which are not as easily marked or damaged paper ones. Kem plastic cards (www.kem-cards.com) are $25. Expect to pay 65 cents each for 300 to 500 hot-stamped clay chips, enou for eight players (www.pokerchips.com). A casino-quality table will set you back $2,500 (www.gamblersgeneralstore.com).

Finally, study. Good books include Doyle Brunson's analysis of strategy, *Super System* ($30, www.playersbooks.com), and Mike Car classic, *Caro's Book of Poker Tells* ($17.50 at Amazon). You can practice your game online for free (www.pokerroom.com). —S

aking the game available, they're in trouble."

Planning to run for public office someday? Then be sure you eep the Internal Revenue Service happy. Report gross winnings s "other income" (line 21) on form 1040. Enter losses as a "mis-ellaneous deduction" on Schedule A. You can deduct a loss only p to the amount of the win you report in the same year. But such sses are not subject to the same floor (2% of adjusted gross in-ome) that limits other miscellaneous deductions.

Accountant and poker enthusiast Russell C. Fox of Irvine, Calif. gs his winnings and losses after every game, noting where he played, when and the names of other players, if the game took place in a private home. "You don't need very good documentation for your winnings—the IRS is always happy to see you report more income," Fox says, "but you sure need it for the losses." What if the game was illegal? You're not obliged to say. Report winnings anyway.

Suppose you become so besotted with hosting games that you want to become a for-profit promoter. You're not completely out of luck. Most states, even those that ban social gambling, allow people to run "amateur leagues." Players in these pay nothing to enter and put no money at risk, competing only for the honor of being named league champ. As host you provide tables, cards, chips and dealers. You make money by charging the owners of venues looking to attract the leagues to their establishments—a bar, restaurant, church, school or fairground, for example. The venue makes its money by selling food and drink to players or by soliciting donations.

Former real estate broker Jack D. Murdock, 54, makes good money hosting leagues. Some 3,500 people per week sign up for the 100 tournaments he holds in Tulsa and Norman, with bar and restaurant owners paying him $1.25 per player. Oklahoma's Alcoholic Beverage Laws Enforcement Commission, which regulates bars, said in July that even though gambling is totally prohibited in Oklahoma, Murdock's business was perfectly legit—as long as no prizes, not even a trophy or a T shirt, were awarded to winners.

In states permitting friendly gambling, it's perfectly legal, of course, to make money by mastering the art of beating your buddies. In *Poker, A Guaranteed Income for Life*, Frank R. Wallace suggests you not base your bets on "card odds" (the 1-in-50 chance of being dealt, for example, three of a kind versus the 1-in-4,000 chance of being dealt four of a kind). Instead, focus on "investment odds," which multiply the card odds by the ratio of your potential winnings to your potential losses. Thus, you might fold if you were holding a pair of threes and a pair of tens and you believed your hand had only a 30% chance of winning. But you'd be wise to stay in the game if the pot was $100 and you knew it would cost only $20 to play on.

The single smartest thing you can do to avoid trouble? Be gracious to fellow players, both in victory and in defeat. Persons charged with violating gambling statutes almost always had been fingered by disgruntled fellow players. F

A Winner's Tale

A new biography asserts that it was smart property investments, not playwriting, that made the Bard of Avon comfy.

BY SUSAN ADAMS

YOU'D THINK THAT AFTER 400 years there wouldn't be a whole lot more to say about the most famous writer in the English language. But now comes *Will in the World* (W.W. Norton, $27), in which scholar Stephen Greenblatt celebrates what other Shakespeare biographers have long deplored—that surviving records of the playwright's life are almost all financial.

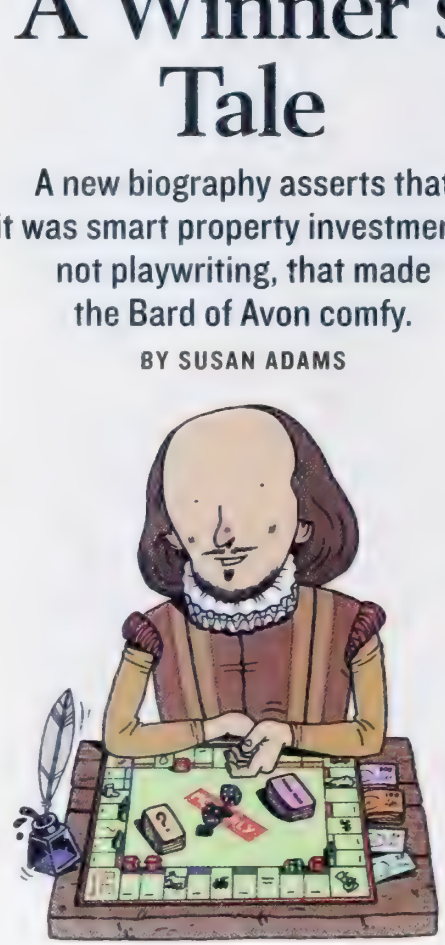
From real estate agreements, legal documents, bills for unpaid taxes and Shakespeare's own last will and testament, Greenblatt gleans that the bard's income from penning plays was nothing much. Yet Shakespeare, by investing, rose from pinched beginnings as a glovemaker's son to become a prosperous man.

His timing was good. He made his first investment, in a theater company, just after bubonic plague had wiped out much of the competition. Pre-plague London had boasted seven thriving companies. For a time, only two survived: the Lord Chamberlain's Men (named for its royal patron, the lord chamberlain Henry Carey, Queen Elizabeth's powerful cousin) and the Lord Admiral's Men.

In 1594 Shakespeare, age 30, invested in the former, becoming one of seven partners. His income as a part-owner exceeded what he got as a playwright (only a few pounds per play). Though historians disagree on how to value 16th-century currency, we know that Stratford schoolteachers of the day earned around 20 pounds a year. A pound, then, probably was the equivalent of something on the order of $1,200 today.

In the late 1590s the owner of the land used by Shakespeare's company unexpectedly hiked the rent. To help pay the increase the Lord Chamberlain's Men had to do something theater companies usually were loath to: They sold publication rights to four of their most popular plays, all by Shakespeare—*Richard III, Richard II, Henry IV* and *Love's Labour's Lost.*

This helped solve the immediate problem. But the incident left the partners worrying about the next rent boost. So in December 1598, in the dead of night, Shakespeare & Co. pulled a move that would have warmed the heart of Harry Macklowe: Working by lantern light, they dismantled the theater and moved it across the Thames to a new site owned by a more sympathetic landlord. A carpenter reassembled the pieces into a polygon—the new Globe Theatre. Its 3,000-seat capacity was twice that of today's "reconstructed" Globe. Customers paid 3 pence for a cushioned seat.



Under the terms of a contract signed in February 1599, Shakespeare became a 10% owner of the theater. He now was set to profit four ways: as actor, playwright, part owner of the company and part owner of the theater. All the while, he remained frugal. Writes Greenblatt, "Shakespeare was someone who not only lived a modest London life but also hated to let even small sums of money s through his fingers." Though he cou afford better, he lived in simple roo above a French wigmaker's shop in Cr plegate, a low-rent neighborhood of ar sans and immigrants.

He invested substantial sums in r estate, in 1597 buying a handsome hou on a big parcel of land in his hometo of Stratford, in which he installed wife, Anne, and their two daughters. maximize cash flow, he deferred payin bill for 13 shillings 4 pence ($800 tod in property tax.

In May 1602 he bought w over 100 acres of farmland in C Stratford. He also paid 140 pour for a London apartment, which rented out. This second transacti was byzantine, involving three purchasers who put up no mor but who were appointed as truste Why such an arrangement? Gree blatt speculates Shakespeare m have been trying to frustrate a future claim by Anne to ownersh

Shakespeare's theater compa prospered. In 1603, when Que Elizabeth died and James I to over, James made the Lord Cha berlain's Men his own, renami them the King's Men. Royal patro age brought boffo revenue, sin theatergoers sought to see the sa plays as the regent. The compan 1603-04 season saw seven of Shal speare's plays performed, includi *Othello, The Merry Wives of Wi sor* and *Measure for Measure.* Jan later became such a fan of *The M chant of Venice* that he orderec performed twice in three days.

In a lifetime of shrewd busin moves that mirrored his felicity a writer, Shakespeare saved his b for last. In 1604, when he was wr ing *King Lear*, the 40-year-old playwrig grew worried about his eventual reti ment. Fearing he might be forced, Le like, to beg hospitality from his childr he sank 440 pounds into grain "tithe shares in farm output. The deal pa 60 pounds a year for 31 years. Though t author died at 52, the income lived on, the benefit of his heirs.

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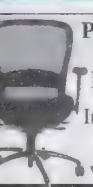

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THOUGHTS

On the Business of Life

It occurred to me how silly it was to be sitting alone in front of a television set and applauding with fervor when President Carter introduced Anwar Sadat during his report on the results of the Camp David summit. What extraordinary risks Sadat ran when, alone on his own, he went to Israel a year ago. What courage that took. What courage again was required at Camp David to lead the people of Egypt toward peace in spite of the fanatic resolve of the Libyan Qaddafis and Palestinian "liberators" to kill him and any Israeli pact aimed at peaceful resolution. —MALCOLM S. FORBES (1978)

Life shrinks or expands in proportion to one's courage.

—ANAIS NIN

Courage is doing what you're afraid to do. There can be no courage unless you're scared.

—EDDIE RICKENBACKER

Courage is the art of being the only one who knows you're scared to death.

—HAROLD WILSON

The bitter part of discretion is valor.

—HENRY W. NEVINSON

I'm very brave generally, only today I happen to have a headache.

—TWEEDLEDUM

Nothing gives a fearful man more courage than another's fear.

—UMBERTO ECO

The bravest thing you can do when you are not brave is to profess courage and act accordingly.

—CORRA HARRIS

Some have been thought brave because they were afraid to run away.

—ENGLISH PROVERB

Colonel Cathcart had courage and never hesitated to volunteer his men for any target available.

—JOSEPH HELLER (CATCH-22)

Courage is very important. Like a muscle, it is strengthened by use.

—RUTH GORDON

Have the courage to live. Anyone can die.

—ROBERT CODY

Courage is the ladder on which all the other virtues mount.

—CLARE BOOTH LU

Courage is being scared to death—but saddling up anyway.

—JOHN WAY

Hidden valor is as bad as cowardice.

—LATIN PROVE

Courage is a cold Bombay martini.

—ENO PUTA

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—JOB 38

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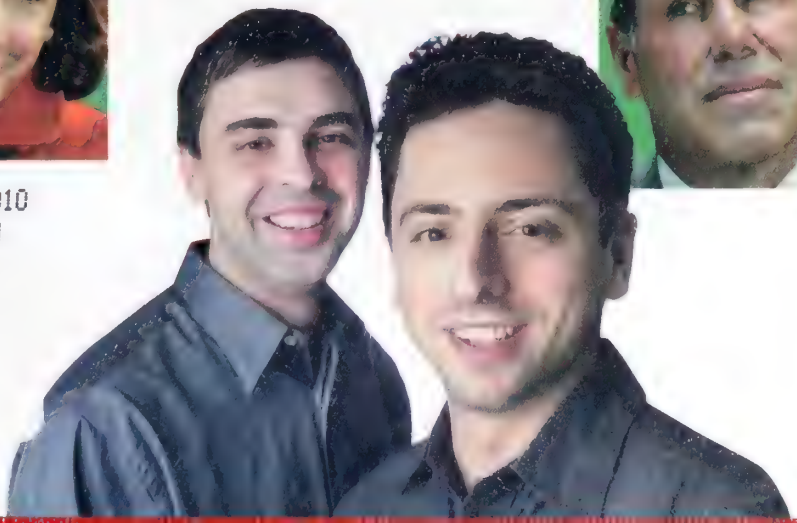

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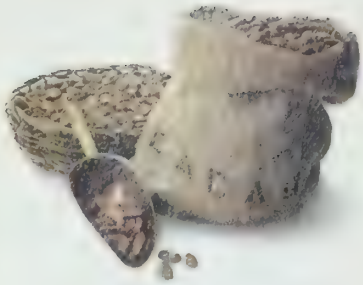

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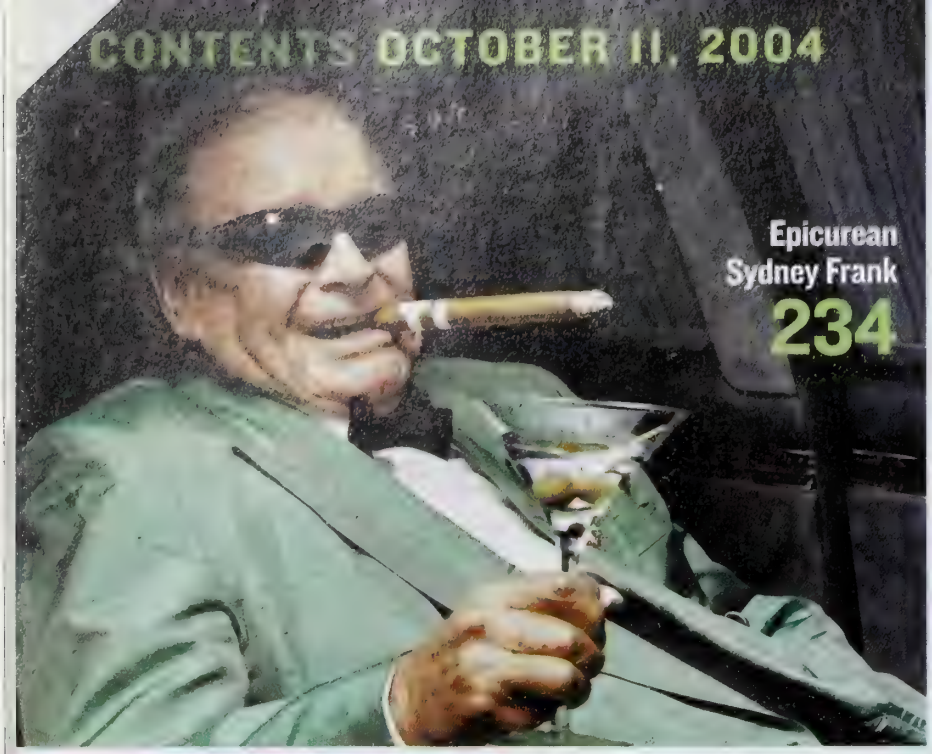

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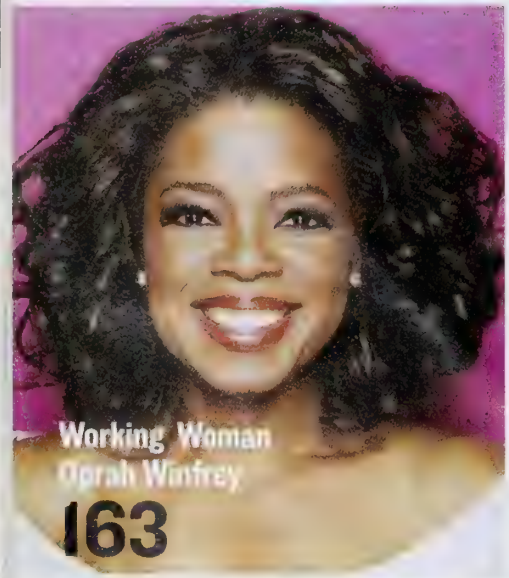

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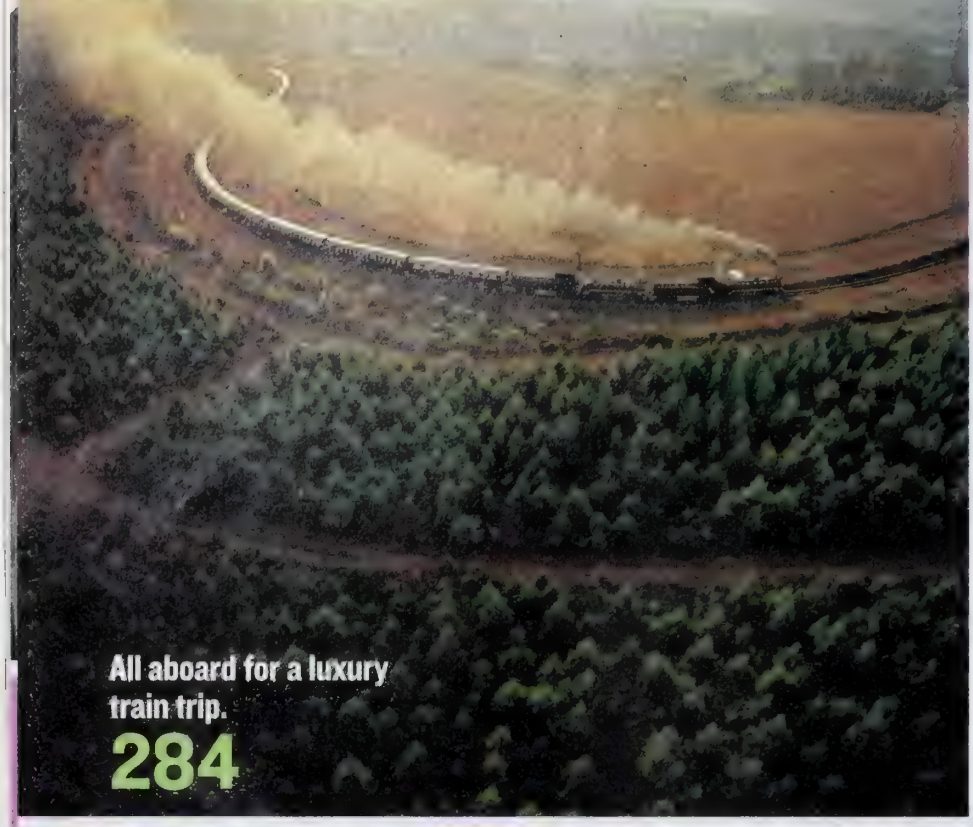

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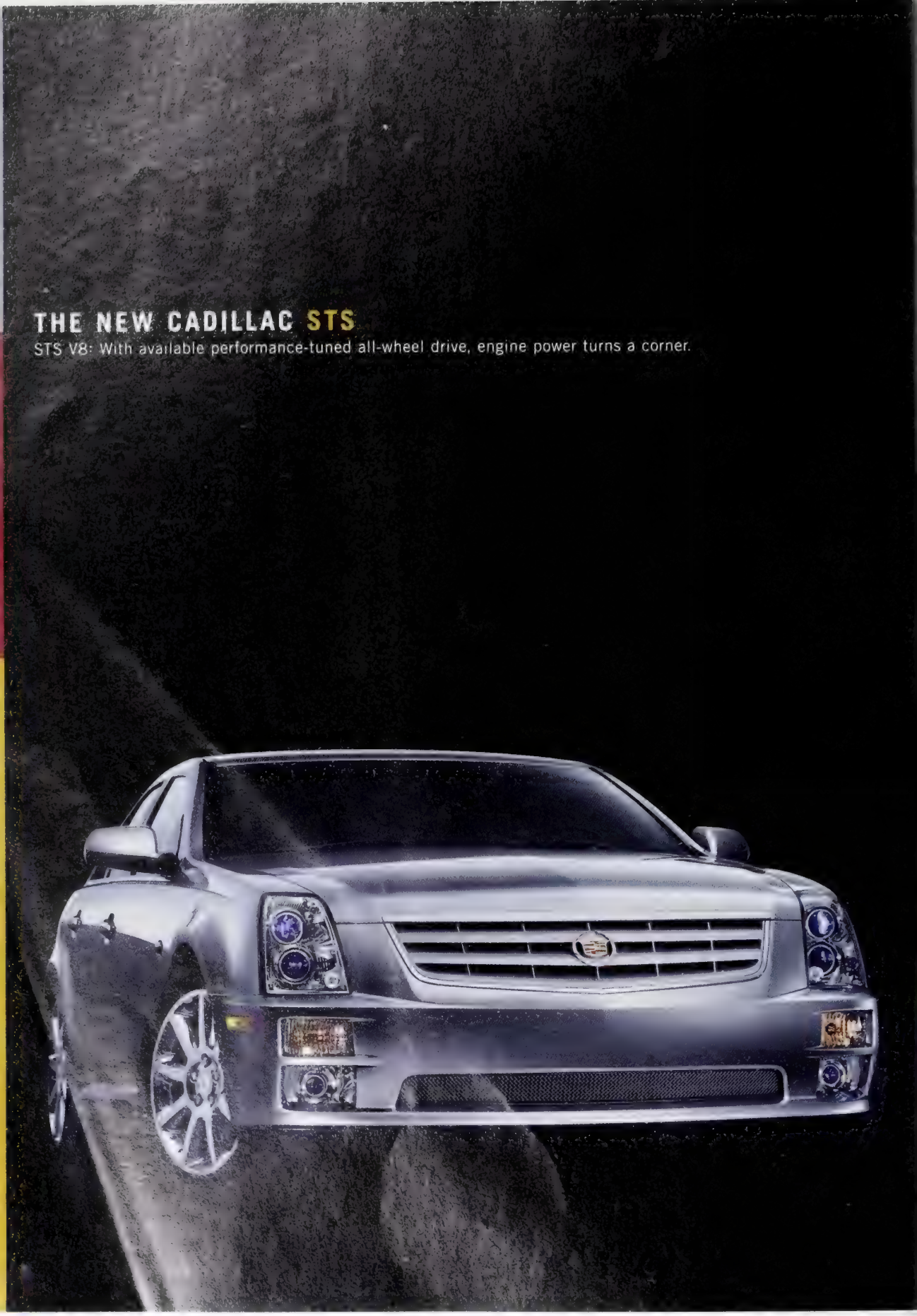
THE NEW CADILLAC STS

STS V8: With available performance-tuned all-wheel drive, engine power turns a corner.



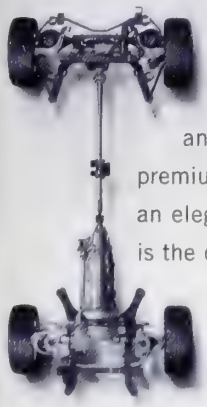
While elementary, the notion that

FOUR IS GREATER THAN TWO

has led to a better performing vehicle.

The appeal of having a 320-hp 4.6L Northstar V8 VVT driving *all four wheels* would seem obvious enough. It is generally acknowledged that all-wheel drive translates into all-weather, all-road capability. But the new Cadillac STS is, first and foremost, a *performance* vehicle, and performance drivers are attached to the more traditional rear-wheel-drive configuration, for reasons more compelling than nostalgia. Having the front wheels steer while the rear wheels generate forward thrust produces perhaps the most thrilling aspect of performance driving—accelerating out of a corner, using the throttle to shape your exit line. How might one craft an all-wheel-drive system that would satisfy the performance driver?

Available on STS V8, the Cadillac performance-tuned AWD system makes extensive use of aluminum to enhance vehicle capability without adding excessive weight. Care was taken in the design, selection, and mounting of components to minimize noise and vibration, thus preserving a premium ride experience. It is in every way an elegant system, but its primary focus is the delivery of *power*—to all four wheels.



But during cornering, particularly during *aggressive* cornering, all four wheels will seldom find exactly the same degree of traction, thus opening the door to wheel spin and the subsequent loss of power and control. We close that door with the STS chassis control system, which integrates the control strategies of the engine, transmission, ABS, traction control, and the StabiliTrak stability enhancement system to minimize wheel slip and to help keep STS moving in the direction the driver intends.

But what the performance driver will note is that engineers have given the AWD system in STS a 40/60 front-to-rear torque split, meaning that 60 percent of engine output is directed toward the rear wheels. Just enough, it turns out, to make STS with AWD feel more rear-wheel-drive-like when power is applied in corners.

Toe the throttle coming out of a corner, and *everything*—lightweight components, sophisticated controls, and 60 percent of driving force directed to the rear wheels—comes seamlessly into play. Being "on rails" is far too passive a metaphor. You might well call the experience thrilling. For performance, four is greater than two. Cadillac STS V6 starting at $40,995.*

BREAK THROUGH

illac.com ***MSRP. STS V8 as shown $62,510 MSRP.** Tax, title, license, dealer fees, and other optional equipment extra.

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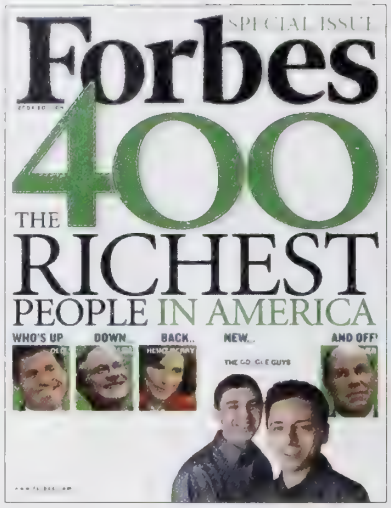
The 400 Richest Americans

Michael Noer



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Video. FORBES Senior Editor Peter Newcomb introduces this year's list; Forbes.com video anchor Tara Murphy takes a look at some of the more prominent individuals.

Online Only Features. Click on the name of any member of our list to read a short biography; use our People Tracker e-mail service to keep up with the latest news on your favorite wealthy Americans; see our online archive of The Forbes 400 going back to 1996.

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Protecting Your Stash

At this magazine we try to do human interest stories. Like, how to get rich.

Also, how to stay rich. That's harder than getting there. You can see that in this issue, where we tell of the struggle to preserve capital against the ravages of inflation, tax collectors and in-laws. For most of the families that land on the Rich List, the story ends in failure sooner or later. Of the 400 names on our first list, which appeared in 1982, only 50 remain. Some died, some carved up their fortunes, but more than half of the starting lineup just got trampled in the success race.

If you have not yet pulled out your handkerchief for these people, you should at least contemplate how their problems mirror your own. Let's say you have $1 million stashed away. Could you live off your capital—indefinitely? How much of the interest and dividends can you safely spend? You may be surprised at the answer.

In a sobering essay on page 52, Maria Elena Lagomasino, a wealth preserver at J.P. Morgan Chase, warns the rentier class about overspending. Over the past generation the stock market has delivered a 13.5% annual return. But that doesn't mean your hypothetical pile is good for $135,000 a year. The bull market of the past two decades is an aberration, and you've got taxflation to worry about. Lagomasino suggests limiting your outlays to 3% to 4% of assets.

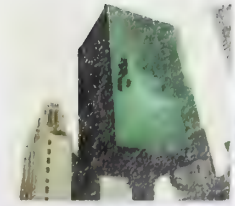
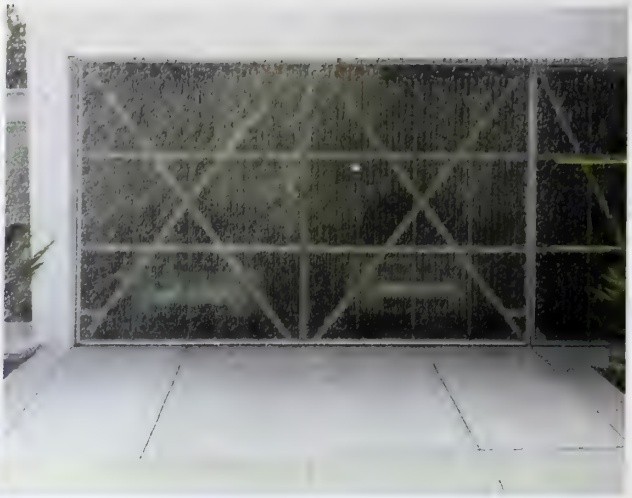
For a second opinion I turned to Andrew Smithers, a well-known investment theorist in London. Over the long term, he says, equities provide a real (that is, inflation-adjusted) return of just over 6%. That sounds better. But wait. Smithers says U.S. stock prices are half again as high as they should be. That means today's buyer of an index fund can reasonably pull out only 4%. Subtract state and federal tax, and you are at the unpleasant end of the Lagomasino range. Federal taxes on dividends and capital gains are at the moment low, but wait till Hillary gets elected.

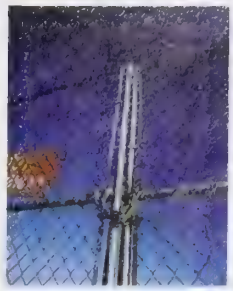
A safer portfolio is half in bonds. After federal tax, an inflation-protected Treasury pays 0.9%. (Inflation-protected? Not quite. You're not protected from tax on the inflation adjustment.) A 50-50 blend with your S&P 500 Index should deliver a spendable yield of 2%.

If you were planning to retire at 50 with $1 million in the bank, you should be in perfect health, and comfortable in a trailer park in Arkansas.

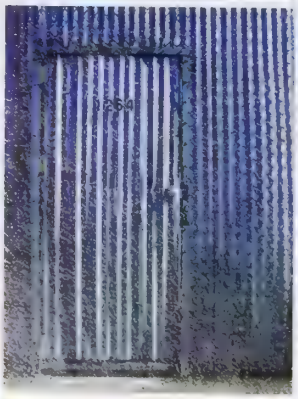
William Baldwin
EDITOR

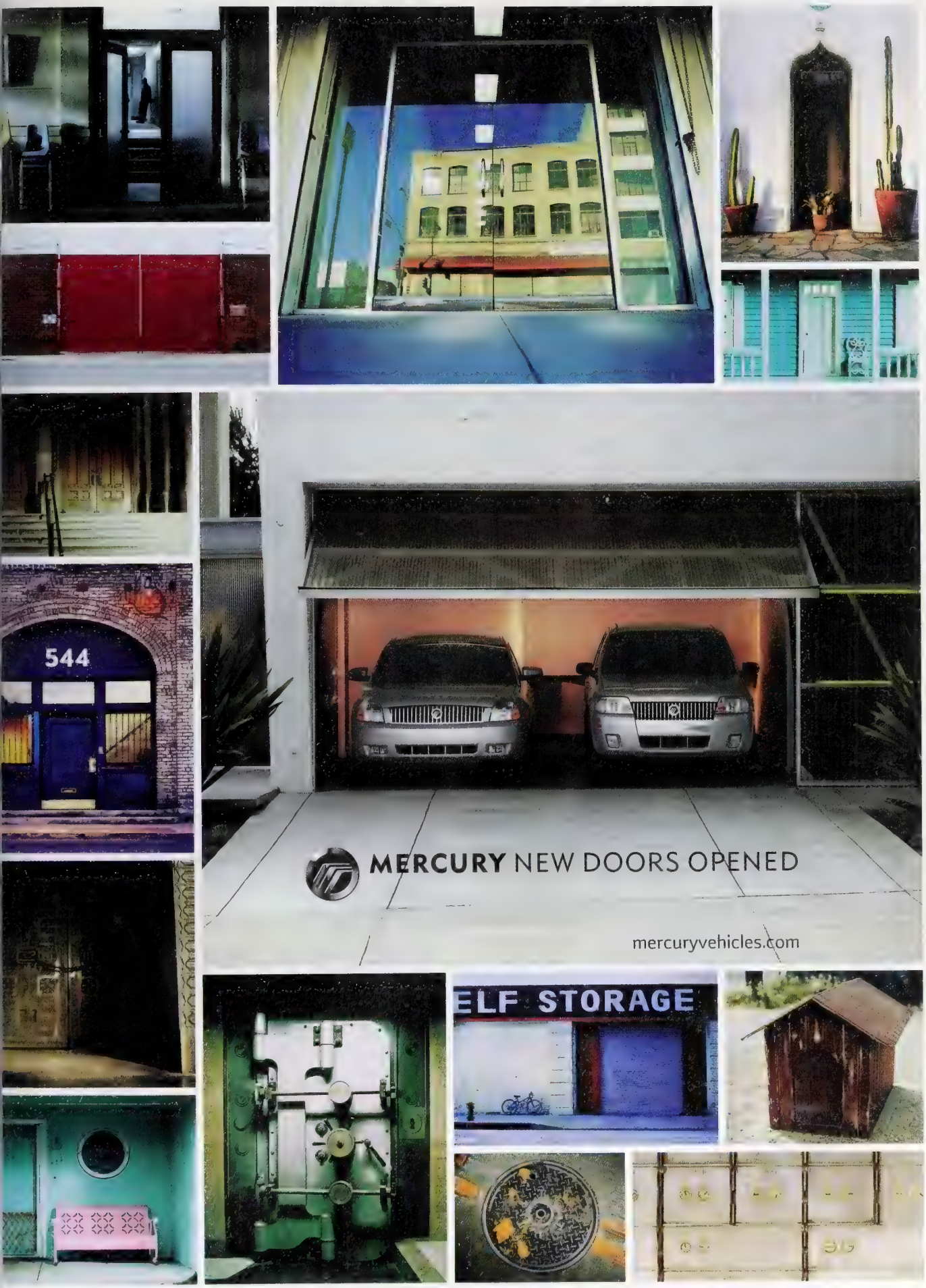
CANALI



Behind every door,
there's another discovery.

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READERS SAY

Unenlightened?

As a business professor, I encourage hundreds of students each year to read FORBES, for it can be trusted. But "Sensei's World" (*Sept. 6, p. 126*) casts serious doubt on that. As an active member of Soka Gakkai, I have seen substantial transparency within the organization and in my assessment its transactions are legal, accountable and morally sound. What attracts me to the Soka University of America is a small student-teacher ratio, its humanistic ideals and an environment for students to develop a global and yet humane perspective. Like other admittedly small-scale philanthropists, I get satisfaction in contributing from afar for a good cause.

HARSH MISHRA
Assistant Professor, Strategic Management and International Business
State University of New York, New Paltz, N.Y.

I have been a member of Soka Gakkai International-USA for 35 years, and I consider Daisaku Ikeda to be my mentor. Just as Warren Buffett had Benjamin Graham, those who are successful usually have mentors. My wife and I make monthly monetary contributions to SGI-USA, as most people do to their respective religious organizations. Our contributions have never been "demanded" from us; they have always been voluntary.

TOM MEYER
Kirkland, Wash.

A Class Act

Thank you for exposing the class action litigation scam in "Dirty Money" (*Sept. 20, p. 150*). Every month I get another notice explaining my rights and potential benefits as a member of some injured class. I learn that if I provide documents relating to events that occurred years ago, I may be rewarded with as much as a few cents per share of stock in the respective company. In each case I tally the potential benefit versus time required to dig up these documents and usually decide not to participate. I notice that in each case the legal team that worked diligently to give me this bonanza will reap a multimillion dollar reward no matter what I do.

KEITH NANCE
Raleigh, N.C.

Blood Sell

"Blood Feud" (*Sept. 20, p. 66*) misse the story. The real action is in disea prevention and patient managemen We offer preventive cardiology service guidance on diet and exercise and trea ment plan follow-up. Our competito don't even pretend to offer this. In co trast to the insinuations of your stor Berkeley is the most affordable of all t companies, given what is now delivere and required by the physician. To ca this a blood feud and paint a monolith picture of the market differentiated on by pricing is an attempt to sensationa ize a very rational and thoughtful pos tioning dynamic.

FRANK RUDERMA
Chief Executive, Berkeley HeartL
Burlingame, Cal

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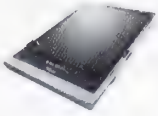

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Nirmalya Bhowmick's counterterror faculty.

Oozing With Expertise

In "My Son, The Bodyguard" (*Sept. 6, p. 64*) you imply that the founder of Cupim, Nirmalya Bhowmick, is some testosterone-oozing martial artist who dabbles in security. His profession is counterterrorism, international intelligence operations and high-risk protection management. Cupim offers rigorous degree programs that are approved and licensed by the California State Bureau of Private, Postsecondary and Vocational Education. You also present a deeply erroneous picture of our market and our position in it. We have virtually no serious competitors. Finally, the correct spelling of Cupim's founder is "Bhowmick."

MICHAEL H. CORCORAN, PH.D.
President, Cupim
San Jose, Calif.

Betting on Better Bottling

"Thirsting for Growth" (*Sept. 6, p. 174*) is an insightful look at an industry we've been part of for a century. The consolidation of this business occurred after chief executives wrested control of the industry from marketing chiefs. These companies ejected their creative design departments and minimized sales outposts to a beleaguered few. Packaging alternatives are offered by these multinational conglomerates. You can see samples of these floating bottles on your next trip to Fiji. Unlike their aluminum and steel counterparts, these plastic bottles are no recyclable. We hope your story will be a long overdue wake-up call to our monolithic industry.

SCOTT K. WESTPHAL
President, Can Component
New York, N.Y.

No Widows or Girly Men, Please

"Booby Prize" (*Sept. 20, p. 246*) misse some substantive facts. Investors shoul know that yearly expense ratios ca exceed 4% on a mutual fund. An investo can purchase class C shares and avoid th 5.25% upfront load on the class A share The Grand Prix fund is not for widows orphans or the faint of heart. It is a high risk momentum fund and should b treated as such.

TED TURNE
President, Turner Corp
Osterville, Mass

Drive-By Education

"Bumper-to-Bumper Education" (*Sept. 6 p. 77*) should have noted that critica thinking is the essence of diagnostic ca repair. It can only be practiced by person with a well-rounded education Diploma and degree training programs a community colleges like mine requir students to complete academic an specific technical courses in order t graduate. UTI does not require any acade mic courses for its graduates and there fore can't produce critical-thinkin diagnosticians. UTI's graduation rate an turnaround time are impressive, but th quality of its product over the long tern is still unproven. How can we allow cer tain educational providers to reverse century-long trend of offering mor rigorous curriculums only to satisfy rav numbers in the short term?

STEVE CONWA
Chair, Automotive Technology Divisio
Gwinnett Technical Colleg
Lawrenceville, Ga

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Curtis Robb, CIO
Delta Air Lines, Inc.

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FACT AND COMMENT

By Steve Forbes, EDITOR-IN-CHIEF

"With all thy getting get understanding"

She Could Have Killed Him

SWIFT ACTION BY MEDICAL AUTHORITIES SAVED FORMER President Bill Clinton from a possibly fatal heart attack. His quadruple bypass surgery was "just in time." Tens of thousands of other Americans have had similar experiences.

Perhaps our former chief executive and his wannabe-national-chief-executive wife might consider what would have happened had Hillary's attempt to nationalize health care a decade ago been successful. Oft-fatal waiting lines, rather than prompt action, would now be the norm, just as they are in countries that have socialized medicine. Canada's Fraser Institute points out that patients in that country—which is still held up as a model for health care by many Americans—must wait more than three weeks for an appointment with a cardiologist and then another two weeks or so for urgent bypass surgery.

Clinton heart op
Just in time

—New York Post

Russia: All-Powerful Center, Impoverished Country

PRESIDENT VLADIMIR PUTIN'S MOVE TO TIGHTEN HIS GRIP ON Russia's regions and parliament underscores why Russia continually lags the West when it comes to modernization. Russia traditionally has been ruled by a powerful, oft-tyrannical center. Civil society, as we know it in the West, has been virtually nonexistent for most of Russia's history. Western Europe has had its share of absolute monarchies over the centuries, but these rulers didn't have the kind of authoritarian/totalitarian control over their societies that Russian czars and commissars have had over theirs. Feudalism had withered in most of western Europe by the middle of the 16th century, but serfdom didn't end formally in Russia until 1861. In western Europe, the serfs gradually became a smaller and smaller percentage of the population, but in 1861 serfs still constituted almost 90% of Russia's. And the liberties of serfs in Europe were manifold compared with those of their Russian counterparts. Next to Russia, western Europe seemed a hotbed of mobility and progress.

Russia has had plenty of modernizers, but they have always employed top-down methods. Peter the Great imported numerous military and technical experts from the West, but he maintained an iron political grip over his expanding empire. Europe had independent sources of power—aristocracies, the Church, merchants and others. In Russia, independent institutions and groupings were eventually brought to heel by the czars and were crushed altogether by Lenin and Stalin.

Before WWI and the 1917 Communist coup, signs of a vibrant civil society in Russia, including an independent judiciary and a landowning peasantry, had begun to emerge. Russia had been experiencing the highest economic growth rates in Europe. The Bolsheviks put a quick end to these stirrings.

The fractured nature of western Europe was a spur to innovation and change. Countries did indeed continuously war against one another, but no one monarch emerged to control the continent. Societies were open to invention precisely because rulers wanted to be on the cutting edge of military technology. Truly decentralized states, particularly the Netherlands (which broke away from Spain in the late 16th century) and Britain, fostered liberties that, in turn, fostered innovation and economic growth. The English learned the art of self-government, and the American colonies took it even further. It's no coincidence that the Industrial Revolution began in Britain and that the U.S. became the world's foremost industrial power. The Henry Fords, Thomas Edisons and Bill Gateses of the world are not created by political decree.

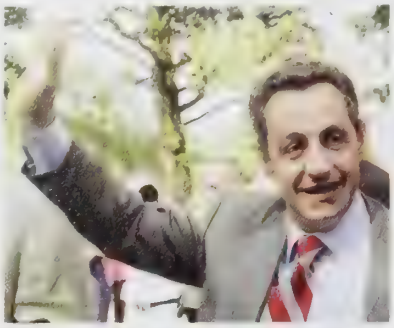
Perhaps Putin recognizes all this and will allow Russia to experience genuine economic freedom, which, eventually, could lead to genuine democratic political reform. His moves on tax simplification and property rights were heartening steps. Certainly the former editor of our new Russian edition, the late Paul Klebnikov, thought he saw the beginning of grassroots, modernizing forces. Perhaps Russia will go the way of South Korea and Taiwan. Only a few decades ago they were dictatorial states; now they are bustling, modern economies with vibrant democracies. But the dead hand of Russian history must give optimists real pause. The histories of Russia and China are clear: All-powerful centers lead to stagnation and backwardness.

Revealing Rants

THE REASON FOR OLD EUROPE'S ECONOMIC STAGNATION IS best understood in recent outbursts by Nicolas Sarkozy, France's outgoing finance minister. Sarkozy, who plans to run for president of France, blasted the EU's newest members for having corporate taxes that are too low. The 10 new EU members, most of which are from eastern and central Europe, have an average corporate tax rate that's about two-thirds that of the 15 other EU members. The French and Germans feel these relatively low levels are contributing to the "de-

localization" of industry and jobs from western Europe to eastern Europe. Sarkozy wants these low-tax nations to be deprived of the so-called structural funds that the EU routinely provides to underdeveloped areas for building roads, railways and other infrastructure projects. If Sarkozy had his way, in fact, he'd force the new members to "harmonize" their tax codes with the growth-crushing levels of France and Germany.

But the new members think low taxes are necessary for turbocharging their economies so they can catch up with the West. Their model is Ireland—which for decades has aggressively employed tax incentives—not Germany or France. Ireland has transformed itself from one of western Europe's weakest economies into its most vibrant. The Irish have achieved the best revenge for their tortured history with Britain: Per capita income on the Emerald Isle now exceeds per capita income on the Sceptred Isle. Such countries as Poland, Slovakia, Latvia and Estonia are determined t follow Ireland's example. Slovakia has even enacted a bold flat ta with a maximum rate of 19% on personal and business incomes— a pittance by Franco-German standards.



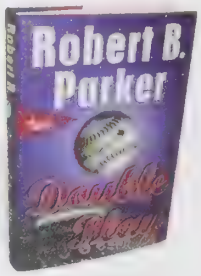
Nicolas Sarkozy can continue to wave goodbye to east-bound jobs.

While Sarkozy's blasts at eastern and cen tral European states may play well with som voters at home, he conveniently ignores th real reasons for France's stagnation—amon them, the rigid 35-hour workweek and othe ever-mounting obstacles to employmen sky-high taxes; the system of price contro for retailers; and delayed privatizations.

While excoriating low-tax, determined to-grow countries, Sarkozy undermined hi own case against their policies when h simultaneously proposed a raft of new tax incentives for com panies that remain in certain depressed French regions and fo businesses that return to France.

On the Ball

Double Play—by Robert B. Parker (G.P. Putnam's Sons, $24.95). A grand-slam combination of adventure, mystery and sports—and an evocative but unsentimental memoir. Fictional hero Joseph Burke is hired by Brooklyn Dodgers boss Branch Rickey to protect Jackie Robinson, who in 1947 was breaking baseball's color barrier. Burke himself has plenty of scar tissue, having had less than an ideal childhood and having been wounded at Guadalcanal and then abandoned by his wife when he returned home.



Jackie Robinson faces all kinds of pressures and threats from racists and various gangsters, as well as from some unlikely quarters, including players from the Negro leagues. They warn him that if he succeeds, Major League Baseball will take the leagues' best players and that, in turn, will mean the end of the leagues and the end of employment for players who are either too old or lack the requisite ability.

The racism Robinson faces is made real, whether it's when he's hailing a cab in white areas, securing a hotel room or finding a restaurant that will serve him. Those barriers and humili ations are vividly brought to life in an understated way. The were so pervasive at the time that most whites thought they wer absolutely unremarkable.

The tone of *Double Play* is set by the reminis cences of a young Dodgers fan named Bobby, wh as a youngster listened to Dodgers baseball game over the radio.

Excerpt: *"Thing is what they say make some sense, Jackie said. "Be other colored players coming alon after me, and eventually all the good ones be playin in the white leagues. Be putting a lotta Negroes out o business," Jackie said. "The Negro leagues go unde and a lot of Negro players, the ones with less skil gonna be out of a job."*

"True for white players too," Burke said.

"White?" Jackie said.

"Every Negro comes into the major leagues," Burke said, " *one less white man."*

RESTAURANTS: GO, CONSIDER, STOP

Edible enlightenment from our eatery expert Tom Jones and colleagues Patrick Cooke and Monie Begley, as well as brothers Bob, Kip and Tim.

Landmarc—179 West Broadway, between Leonard and Worth streets (Tel.: 212-343-3883). Hip two-story eatery serving Uptown tastes at Downtown prices. Warm goat cheese profiteroles are the perfect prelude to tender hangar steak with a choice of sauces. Good selection of fish, fowl, salads and meats. Pastas change daily.

JoJo—160 East 64th St. (Tel.: 212-223-5656). Delightful and tiny, this is the perfect spot for a discreet rendezvous. Superb fare. Asparagus is lightly cooked to perfection, as is the steak frites. The apple crumble and the roasted pear are divine; even the coffee is worth special mention.

Barbuto—775 Washington St., at West 12th St. (Tel.: 212-924-9700). Minimalist, garage-doored space; glass doors frame two sides of the dining room and are open when it's warm. Try the wood-grilled diver scallops with mâche (first or main course); the fried egg, anchovy and wild chicory salad; or the massive rib-eye steak served with an equally massive chili pepper.

Geisha—33 East 61st St. (Tel.: 212-813-1113). Noisy, crowded, expensive, but the food is terrific. The sashimi is as fresh and delicious as any available in town. Favorites: sea urchin served in a tower of hollowed-out cucumber, the chicken and the skate. For dessert have the mille-feuille with Yuzu. The service is efficient and pleasant. Take note, no reservations after 6:30 p.m. F

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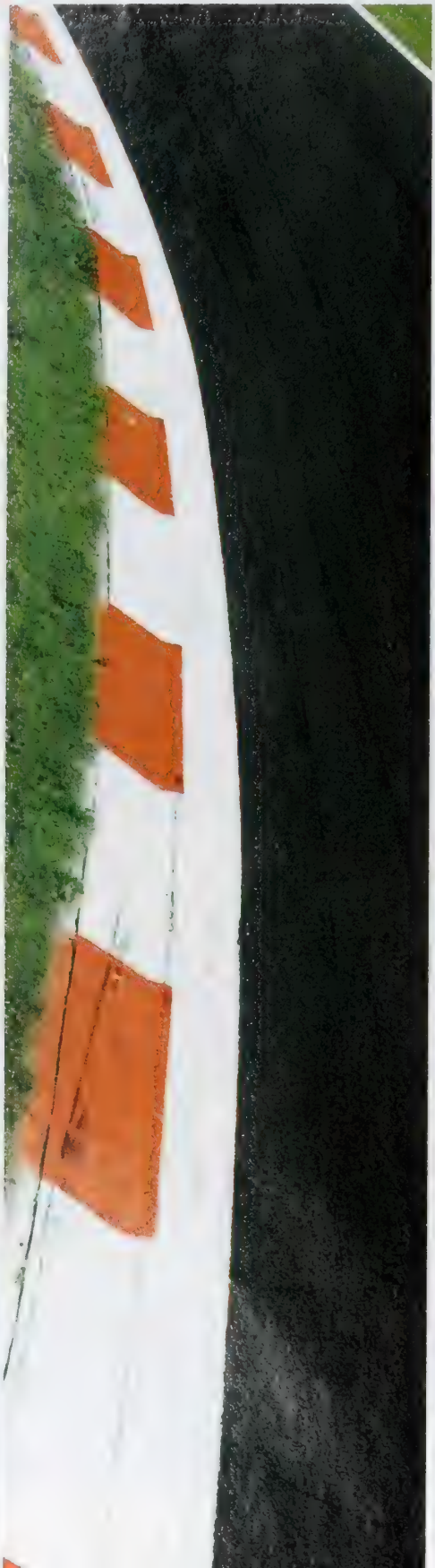

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Better to be nouveau than never to have been riche at all.
—AUTHOR UNKNOWN

Putin's Coup D'État Governments react differently to acts of terror. President Bush took the war against terror on the offensive, to Afghanistan and Iraq. In Spain, the newly elected government chose to react to the Madrid train bombings with appeasement, withdrawing Spanish troops from Iraq. In Russia, President Vladimir Putin has reacted to the Beslan school massacre by taking yet another step in centralizing political power in the Kremlin. To the foreign observer, tightening the country's political structures does not make a lot of sense in terms of improving Russia's dismal record on protecting the safety of its citizens. It does, however, make a lot of sense if the purpose is rolling back the democratic gains that were made in Russia after the fall of the Soviet Union. This is a response that seems designed to take us back to the Soviets, possibly even to the era of the czars. [It] seems highly opportunistic, hardly designed for "internal security" as Mr. Putin stated, but part of a long-term strategy for authoritarian political control.

—HELLE DALE, *Washington Times*

Good Timing The speed with which President Clinton received quadruple bypass surgery provides an important lesson in health care reform that voters should keep in mind this election season. President and Senator [Hillary Rodham] Clinton's greatest health care legacy is their attempt to pass the Health Security Act in 1993 and 1994. Under the act, the federal government would have compelled all Americans to buy health coverage, dictated what type of coverage they would receive and where they would purchase it, set prices for coverage and medical services, and encouraged states to form their own single-payer health care systems.

When government makes medical care "free," people demand medical care without regard to cost. Governments can't keep up with the excess demand and therefore must find some way of allocating care amid shortage conditions. Most choose to make patients wait. Since the Clinton health plan was defeated, untold patients have been aided because America's health care system, whatever its faults, was not subjected to the shortages and waiting lines that plague other nations. But the future is less certain. Democratic presidential candidate Senator John Kerry is aggressively promoting his $1 trillion health care plan that borrows heavily from the Clinton plan. [He] too seems to believe that having government issue a paper guarantee of "coverage" is the same thing as having access to medical care.

—MICHAEL CANNON, Cato Institute

"Good fences make good marriages."

* * *

According to the latest measurement Canadians wait slightly more than 4 months from the time their general practitioner refers them for treatment to the time a specialist delivers the care. In 2003, actual waiting times for medical services in Canada exceeded the times physicians felt were clinically "reasonable" in 92% of the 12 medical specialties and 10 provinces surveyed. Further, Canadian waiting times [are] among the longest in the world. In spite of the fact that the Canadian health care system is tied with Iceland's as the most expensive universal access health care system in the OECD on an age-adjusted basis.

—NADEEM ESMAIL, Fraser Institute

The Unspeakable Truth On Sept. 11, 2001, America awoke to the great jihad, wondering: What is this about? We have come to agree on the obvious answers: religion, ideology, political power and territory. But there is one fundamental issue at stake that dare not speak its name. This war is also about—deeply about—sex. For the jihadists, at stake in the war against the infidels is the control of women. Western freedom means the end of women's mastery by men, and the end of dictatorial clerical control over all aspects of sexuality—in dress, behavior, education, the arts.

—CHARLES KRAUTHAMMER, *Washington Post*

Word Perfect? No. When [European] politicians talk about competitiveness, what they usually mean is more protectionist industrial policy. How else can the French Finance and Economics Minister Nicolas Sarkozy claim with a straight face that "it is not a right of the state to help its industry. It is a duty." No, Mr. Sarkozy, competitiveness means that you provide the political framework in which entrepreneurship and risk-taking can flourish, not through state interventions but through the lack thereof. Competitiveness means moving away from national tribalism and creating deserving champions based on merit, productivity and competitive prices.

—ANN METTLER, executive director, Lisbon Council, *Wall Street Journal Europe*

Life Without Parole I was married by a judge. I should have asked for a jury.

—GEORGE BURNS

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By Paul Johnson

When Are You Seriously Rich?

IN AN AGE OF RICH LISTS, WHAT EXACTLY DO WE MEAN BY RICH? In current English usage, it's not enough to say someone is rich; he must be "seriously rich." But what constitutes serious wealth? One magnate I know lays it down thus: "If you know exactly how much you are worth, you're not seriously rich." I've heard figures like $100 million mentioned ($50 million is too low, they say). The ancients had a phrase, "as rich as Croesus." Croesus was King of Lydia, whence came the metal mixture electrum used for the first Greek coinages, and his wealth was measured by his generous donations to religious shrines. Another billionaire of antiquity, Herod the Great, astounded his contemporaries by the huge public works programs he financed from his private resources. He was an important figure in the social security programs for which Jewish communities—making up about 10% of the Roman Empire's population at that time—were famous.

Conspicuous Largesse

The richest individuals tend to become identified as such by their conspicuous donations. Andrew Carnegie, who sold out his steel interests to the conglomerate that became U.S. Steel Corp. in the early 20th century, was probably the richest man of his time, in cash terms. He held that, while it was legitimate to accumulate a vast fortune, a "man who dies rich dies disgraced." Carnegie gave most of his fortune away—more than $350 million in his lifetime—and the list of his donations (including 7,689 church organs and 2,811 public library buildings) fills a sizable book. The late John Paul Getty was called "Britain's richest man," largely because his gifts to art galleries and other public institutions were so munificent. But some rich-watchers argue that the most "seriously rich" are those who keep low profiles, give nothing away and lead quiet lives well away from the media. These rich would regard appearing on any rich list as a failure.

My experience is that the rich themselves are extremely interested (and competitive) about wealth totals. Purportedly, when John D. Rockefeller, certainly the richest man of his day, read in the papers that J. Pierpont Morgan had left an estate of $100 million, barely enough to cover the benefactions of his will, he exclaimed, "Well, and to think that Mr. Morgan was not even a wealthy man!"

Only the wisest tycoons are noncompetitive; most compete in ways that have varied over the centuries. Among 15th-century Florentine bankers, there was rivalry over the splendor of the altarpieces they commissioned for their private chapels. Angelo Tani engaged Hans Memling to paint a magnificent "Last Judgment," now the pride of the National Museum in Gdansk, Poland. Tani's rival, Tommaso Portinari, commissioned Hugo van der Goes to paint an even more elaborate "Adoration of the Shepherds," a triptych which, when fully unfolded, is nearly 30 feet wide. It required 16 porters to carry it across Florence, as the citizens, who were very interested in comparative wealth, carefully noted.

Conspicuous Consumption

Today, in terms of London or Parisian splendor, a magnate who has $300 million to his name can comfortably be considered among the superrich and can conduct himself accordingly. But if he wishes to occupy such a position among the financial elite of New York or Palm Beach, he must have at least $1 billion. This, it is said, is the reason media titan Conrad Black had to go to such lengths to finance his lifestyle from the funds of his business.

The tenets of conspicuous consumption require not only that the rich person be conscious or hyperconscious of wealth but also that others recognize his ability to spend lavishly. The Greek shipping king Aristotle Onassis, it is said, married Jackie Kennedy as an act of conspicuous consumption. I've also heard that when entertaining a journalist aboard his yacht, *Christina*, Onassis liked to plunk down a huge pot of caviar and encourage the journalist to eat it by the spoonful. "Don't stint yourself," he'd say, "I can afford it."

But none of this answers the question, "When is a person rich?" In Jane Austen's day—when society was as upwardly mobile (and just as watchful for signs of wealth) as it is today—a tradesman's success was reached when he "set up his carriage," something requiring a stable, horses, a coachman, grooms and the vehicle itself. This act marked the point at which a family changed class in a decisive way. An important part of the plot of *Emma* hinges on news of the decision by Mr. Perry, a local man of business who is rising into gentility, to take this financial step, with its profound social implications. In Austen's day there were a number of such manifest indicators. To be considered seriously rich, one had to have an income of £10,000 a year. This was Mr. Darcy's position in *Pride and Prejudice*. In comparison, Mr. Bingley, who was merely rich, had £4,000 or £5,000 a year.

There are no such clear markers nowadays. Nor are possessions certain indicators. In the heyday of the Mellons, it wasn't enough to have a painting by Titian—you had to possess a Giorgione (much rarer). Today a seriously rich man must own a Van Gogh, a Cézanne or, at the very least, an "early" Picasso.

My idea of being rich—or at least of *feeling* rich—is to have no debts, mortgage or overdraft and to be able to pay all bills by return post. This may seem a fairly modest ambition, but if everyone in the West were in this position our societies would indeed merit the term "affluent," and the world would be a much happier place. F

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Paul Johnson, eminent British historian and author; **Lee Kuan Yew**, minister mentor, Singapore; and **Ernesto Zedillo**, director, Yale Center for the Study of Globalization, former president of Mexico; in addition to Forbes Chairman **Caspar W. Weinberger**, rotate in writing this column. To see past Current Events columns, visit our Web site at **www.forbes.com/currentevents**.

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By Rich Karlgaard, PUBLISHER

Sell Houses, Buy Chips

REMEMBER SHERMAN MCCOY? HE WAS THE SELF-IMAGINED "master of the universe" in Tom Wolfe's 1987 novel, *The Bonfire of the Vanities*. A bond trader who earned $985,000 in a year, McCoy managed the trick of saving none of it. As the book opens, Wolfe treats us to the spectacle of McCoy spending every dollar of his salary and bonus, plus $20,000 more—"going in the hole on a million per year!"—on his 14-room apartment in Manhattan, his daughter's kindergarten, his wife's social mountaineering, a Mercedes coupe, a mistress, and on the many other baubles, bangles, swords and shields that constitute New York status competition.

The millionaire-next-door Sherman McCoy was not.

Had McCoy only stuck around (and avoided legal troubles), the bump in New York home prices would easily have covered his spendthrift ways. His 14-room prewar co-op, with its own elevator to the ground floor, sold for $1.9 million in Wolfe's novel. It would fetch $5.7 million today.

If you knew your house was going to triple, would you be as careful to save money? Your house would be your bank.

This has been the thinking of many real-life Sherman McCoys. Lots of Americans today are house rich and savings poor. Bully for them. Betting the works on real estate, whether planned or lucked into, has worked for most people (so far). It has worked terrifically for people who live in Boston; New York; Washington, D.C.; San Francisco or Los Angeles (so far). It has worked for anyone who owns property bordering an ocean or a gulf. Where salt is in the air, homes have appreciated quickly over the last 20 years.

So far.

But now home prices in the urban Northeast and coastal California run four to eight times higher than the national average. (See for yourself at www.coldwellbanker.com and other Web sites.) Such a "coastal/urban premium" has always existed, of course. Today's premium is twice that of 20 years ago. Last year the most expensive house in Fort Wayne, Ind. sold for $895,000. That wouldn't buy an average two-bedroom condo in Manhattan or Boston's Back Bay this year.

In fact, the price gap between coastal/urban and small-town/heartland America is the widest it's been since the Great Depression. This gap has historically widened and narrowed like a tide. It was at its narrowest in the 1970s, when commercial jet travel to small cities was subsidized. Back then the difference between Fort Wayne and Greenwich prices was 4-to-1, not today's 8-to-1.

To a contrarian investor, any gap that undulates from decade to decade is enticing at its extremes. Home price gaps across the U.S. are extremely wide today. The smart investor might bet on this gap to narrow. Here's what might cause this to happen.

- Coastal/urban prices could drop 5% for every one-point rise in adjustable-rate mortgages. The country's most successful real estate investor, Sam Zell, says ARM rates are headed up. An educated guess is that 40% of American homeowners have yoked themselves to ARMs. But in big cities, where homeowners have learned to apply every inch of leverage available, the percentage holding ARMs is even higher. A rate rise would squeeze millions of homeowners.
- Baby boomers, those pampered 77 million of us, predictably have saved too little for our retirement. Unless the stock market begins roaring like the 1982-2000 version, most boomers will find that their biggest asset is not their 401(k) but their house. Expect to see a growing trend in "equity bandits"—scared boomers who sell their inflated houses in New York or California to buy cheaper ones in Arizona or North Carolina. (They'd better not wait too long, however.)
- Commercial air travel is not likely to reregulate in favor of small cities. But so what? Broadband Internet narrows the information gap between big and small cities. You can do cutting-edge business in small places today. This is how Fargo, N.D. became a leading center of RFID (radio frequency identification) research and how Cornell University in little Ithaca, N.Y. stole nanotech from under the blue noses of Silicon Valley and Route 128.
- In a global economy China and India will continue to exert pressure on prices. U.S. companies domiciled on the urban coasts won't easily get away with passing their high costs on to customers. They'll have to outsource or relocate.
- Terrorism. Sure, it's possible the evildoers could try for the Mall of America or a Big Ten football stadium. More likely, they'll target dense population centers.

Silicon Steal

Another historical price trend, this one for semiconductor stocks, is worth noting. It's no secret that today's market hates chip stocks. It's hated them all year. Thus you'll find the Philadelphia Semiconductor Index (SOXX) near its 52-week low.

What's bugging chips? Some imminent technological disruption? No, the bad vibe has everything to do with Microsoft. The software giant is running a year late on its new operating system, code-named Longhorn. This has pushed the PC-upgrade cycle into 2006. The delay is what killed Intel's price and sank the sector. Fund managers desperate to show good returns for 2004 bailed on chips.

Chips are a steal for anyone with heart and patience. F

Forbes.com | Visit Rich Karlgaard's home page at www.life2where.com or e-mail him at publisher@forbes.com.

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To maintain its position as one of the country's largest property and casualty insurers—while also positioning itself to offer a broader range of financial products—Allstate wanted to offer new ways of interacting with customers, and to do it on an aggressive schedule. Building on a long relationship with Allstate, Accenture deployed eight development teams to help design and implement The Good Hands Network®, which adds integrated Internet and call center channels to the existing system of local agents. Deployed in just 18 months, the two new channels enable customers to do business with Allstate 24/7. Already, over 40 percent of the company's more than 6 million yearly inquiries are made outside of traditional business hours, further extending the company's standing as a high-performance business.

Thomas Cook

High-performance operations, delivered.

A 163-year-old brand with many owners over the years, Thomas Cook UK & Ireland was a respected but complex, decentralized travel services business in need of a return to profitability. In an innovative co-sourcing arrangement with Accenture, the company created a shared services center to consolidate its widely dispersed IT, finance and HR administration operations. Responsibility for strategy and policy was retained by Thomas Cook, with Accenture facilitating operations management. In 16 months, the company removed £140 million in operational costs, helping to achieve an £83 million turnaround, establishing Thomas Cook as a high-performance player in the competitive UK travel business.

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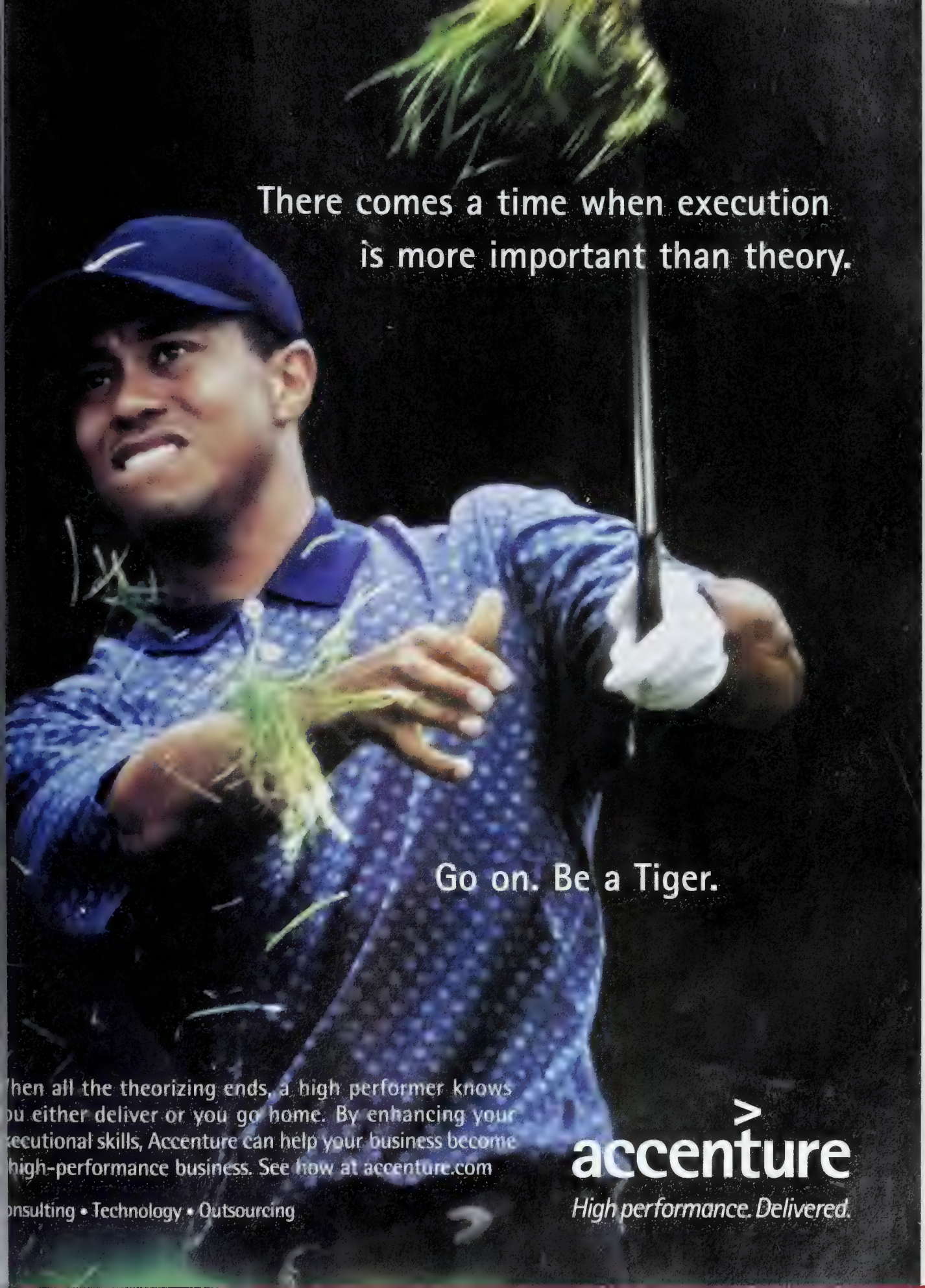
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It's My Money

THREE SIBLINGS FROM THE WEALTHY FAMILY OVERSEEING the *Wall Street Journal*—all ex-Forbes 400 members themselves—are enmeshed in a messy lawsuit in New Mexico over control of their late mother's $60 million fortune. They are aligned against the much younger, openly gay interior designer she married late in life. Scurrilous allegations lace filings in the case, waged for nearly a year out of public notice at the Lincoln County Courthouse in Carrizozo, 150 miles from Albuquerque.

The litigation concerns the estate of Jacqueline (Jackie) Spencer Morgan. In 1948, at age 23, she married Hugh Bancroft Jr., whose grandfather Clarence W. Barron had owned what became Dow Jones & Co., the *Journal*'s publisher. (The Bancroft family still controls now publicly traded Dow Jones through a class of supervoting shares.) Seeking a quieter life, the couple moved to southern New Mexico. But after siring three children—Hugh Bancroft III, Christopher Bancroft and Kathryn Kavadas—Hugh Jr. died in 1953 at age 42. Jackie remarried a local doctor, A.N. Spencer, who died in 1999. In 2000, at age 75, Jackie married again. Husband number three: Ronnie Lee Morgan, 50, whom Jackie had befriended some years earlier after hiring him to work on the 514-seat nonprofit Spencer Theater for the Performing Arts she built for $22 million near her Alto, N.M. home.

But in May 2003, at age 77, Jackie died of an infection after intestinal surgery, leaving behind assets, including Dow Jones stock, that generated $4 million a year. Five million went outright as a bequest to the financially tight Spencer Theater. Various trusts, including one that she signed three days before her death, and her will gave widower Morgan income for life. Jackie's well-heeled kids, each on The Forbes 400 list several times during the 1980s, would get the bulk of the principal only upon Morgan's death—maybe not for decades.

Jacqueline (Jackie) Spencer Morgan

The legal battle began six months later when Morgan sued, saying the trustees and executors of Jackie's various trusts and assets, including son Hugh III, had stopped paying him life-estate income of $50,000 a month. The trustees fired back in a pleading alleging fraud, embezzlement and undue influence. Somewhat gratuitously—it has little direct bearing on the validity of a bequest—they weighed in with, "This marriage was never physically consummated." Jackie's other two kids soon joined the case.

Further filings allege that Morgan set up secret trusts in other states into which some of Jackie's real estate was transferred and that after her death he stole and pawned some of her jewelry. Morgan, who won a court order reinstating the $50,000 monthly stipend, denies wrongdoing. But he carries some legal baggage. In 2003 a Texas appeals court upheld a fraud finding and $1.3 million verdict against Morgan favoring an El Paso, Tex. couple who said Morgan swindled them while redecorating their home. That case drove Morgan into bankruptcy—and later led Morgan's former attorney, Glen D. Aaron II of Midland, Tex., to plead guilty to bankruptcy fraud. Aaron's plea agreement says he helped Jackie secretly transfer $10 million to Morgan without telling his creditors. In open court at Aaron's sentencing in June to two years, federal prosecutor Mark Roomberg declared, "I have no doubt that both Mr. Morgan and Ms. Spencer are criminally liable" but that further prosecutions were unlikely. Morgan insists that he and Jackie were victims of Aaron, not coconspirators, while the other side suggests in filings that Jackie may not have known the whole story about her last husband.

Six months before her death Jackie held a videotaped question-and-answer session with Austin, Tex. psychiatrist Richard E. Coons to rebut, in her words, "that I'm senile and my husband is taking advantage of me." On the videotape Jackie says defiantly that Hugh Bancroft Jr. left her a big inheritance in 1953 "to do as I wish with the money."

Although confused about some details of her financial affairs, Jackie had a clear message. After taking care of second husband, Spencer, during his long final illness, she was very happy about her more active lifestyle with Morgan and wanted him to be well provided for after her death. She detailed extensive—and expensive—activities with him, including travel to far-flung places. Jackie said she put assets in one of those supposedly secret trusts so her husband "will get them undisturbed by other people, because I feel that other people will … not let me have what I wish in my will."

One such person, she explained, was son Christopher, a Denton, Tex. investor and Dow Jones director who, she said, opposed the marriage. "Chris hasn't been concerned with my welfare," Jackie said, adding that he was "extravagant" and has "had some reversals in his business." What is he concerned about? Dr. Coons asked. "I think," Jackie replied, "how much money he's going to get if I die." Christopher's lawyer declined to comment on this point.

—*William P. Barrett*

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Large Company Value* (ALVIX)	20.87%	—	—	5.24% / -1.68%	7/30/99
S&P 500	19.11%	-2.20%	11.83%	—	—

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2004 American Century Services Corporation

By Maria Elena Lagomasino, CHIEF EXECUTIVE OF JPMORGAN PRIVATE BANK

How to Stay Rich

It's difficult to make The Forbes 400 list, more so to remain on it.

WHY DO SOME FAMILIES MANAGE TO SUSTAIN GREAT WEALTH while others fail? Only 50 names have endured since the 1982 unveiling of The Forbes 400. That means the odds of sustaining relative wealth, across a span as short as a single generation, are a mere 13%.

While 145 names lost their perch for expected reasons like death or the deliberate dispersion of wealth, 205 on that first list can't be found on today's because their wealth fell short. Fortunes either crumbled in business reversals or just didn't keep pace with the post-1982 boom in asset prices.

The biggest land mine to avoid in staying rich that we see in our research is overconcentration in a particular investment. People typically create fortunes by single-mindedly pursuing a dream. Yet the concentrated risk that leads to vast riches is often the very risk that destroys wealth. This cycle repeated itself among the 205, as highly concentrated positions in oil, real estate and single stocks knocked name after name off the list.

When the first list appeared, the late-1970s spike in energy prices was still showering wealth on Texas. By 1985 oil well owners were hurting. That year FORBES dropped nine oilmen, among them Ken and Cullen Davis. In 1999 FORBES noted the departure of four du Pont relatives. "Fifteen years ago," FORBES said, "the du Pont family represented 5% of the list. This year, there are none."

But note that the minimum in 1982 was $90 million. A family that cashed out of a single position worth $100 million that year and bought the S&P 500 would easily have crossed the $750 million minimum for 2004 (allowing for some income taxes but no estate tax). Diversification is the key to survival. A singl stock position has a less than 50% probability of sustainin wealth over 20 years. But a diversified portfolio increases th probability to 85%.

Diversification, of course, may not always be an option. An selling an asset with strong emotional connections may turn int a wrenching decision for either th founder of a fortune or his heirs.

"The biggest land mine is overconcentration in an investment. The concentrated risk is often the very risk that destroys wealth."

Leverage is another risk Debt, with a single stock as col lateral, can be deadly. If the stoc price falls by half, then, even i it eventually rebounds to it original price, the leverage holder can easily see his wealt shrink by two-thirds in margi calls. In 1990 FORBES took Don ald Trump off the list, estimat ing his net worth at –$900 mil lion because of overleverage Trump returned in 1996 whe New York real estate rallied. If i hadn't, his comeback may hav been questionable.

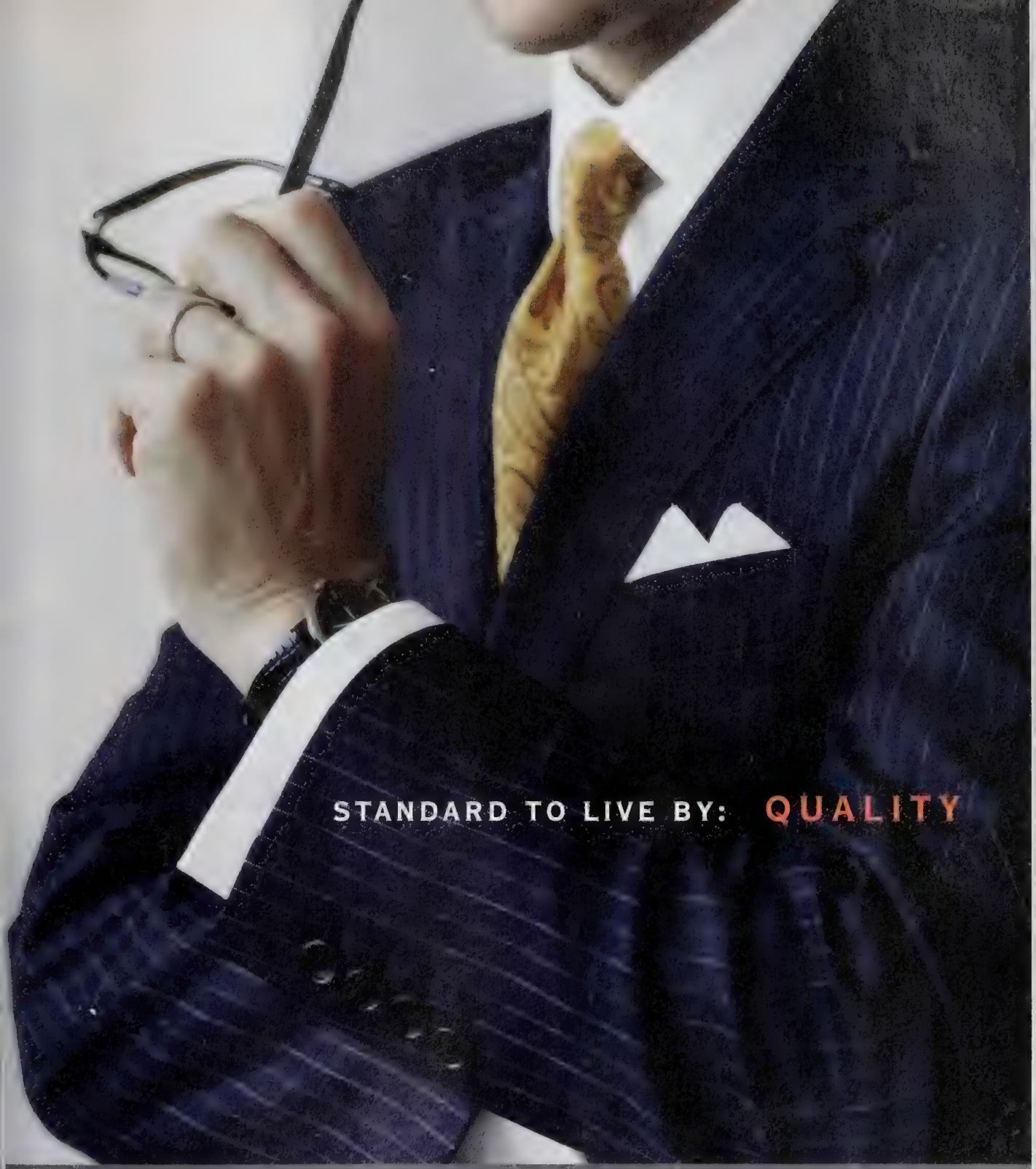
No investment strategy wil bail you out if you spend to much. Prudent spending level often take wealthy families b surprise. Regardless of asset allo cation, spending beyond 3% or 4% o principal is likely to lead, sooner or late to disaster. If you spend 7% of you wealth annually, you could be facing a 80% likelihood that your purchasin power will drop 20% within 20 years.

One more risk is the risk of being too conservative. Anybody who has cowere over a pile of Treasury bills over the pas 22 years has seen 44% of his real wealt evaporate in inflation and income taxes The founding members who survive compounded their wealth (in nomina terms) at an annual 12%, less than th S&P's 13.5% return. Sustaining wealt against the ravages of time and chance i not a small challenge.

Ravages of Time

The fate of the original Forbes 400: 50 remain on the 2004 list, while 205 dropped off because wealth did not grow enough or it eroded.

Source: JPMorgan Private Bank, with data from Forbes 400 annual editions from Sept. 13, 1982 to Oct. 11, 2004.



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OCTOBER 6, 2003

Still Sinning in Style

Making millions with sex and slots: George Maloof Jr.

A year ago we told the tale of George Maloof Jr., a casino mogul bachelor who resurrected sinful indulgence in Las Vegas with his sex-charged Palms Hotel & Casino. The Palms' Playboy-themed slot machines, "playpen" bachelor-party suites and poolside Skin lounge shunned the themed-resort trend of the 1990s and made Vegas cool to the twentysomething crowd. In addition to the Palms, the Maloof clan owns pro basketball's Sacramento Kings, a large stake in Wells Fargo and a Coors distributorship. The family is worth $1 billion, maybe more.

The Maloofs have seen plenty of action since our story ran. While other casinos merged (Harrah's agreed to a $9.4 billion union with Caesars in July), the Palms remained alone, offering generous player perks as rivals pulled back. In June they broke ground on a new luxury hotel tower at the Palms. It will feature clubs, restaurants and a recording studio. The Maloof brothers also established a television production company. The outfit is developing two reality programs; one focuses on t world's most exclusive parties. Outsi Vegas Maloof is teaming with the Lytt Band of the Pomo Indian tribe to opera a new casino in San Pablo, Calif., outsi San Francisco.

Back at the Palms, Britney Spea partied at the hotel's Ghostbar befo impulsively getting hitched to a friend, ev so fleetingly, in January. George Malo helped her get the marriage annulled a d later. The publicity was priceless.

—*Matthew Mil*

SEPTEMBER 30, 2002

Reversal of Fortune

Two years ago we profiled Mauri (Chico) Sabbah, a secretive centimillio aire who made his fortune in the co mercial aviation reinsurance busine Sabbah used his wealth to lavish mo than $100 million on the Americ Hebrew Academy, a Jewish boardi school he founded in his adopted hom town of Greensboro, N.C., even as remained virtually anonymous there.

The terrorist attacks of Sept. 11, 20 broke Sabbah's companies, Fortress and Carolina Re, and devastated t Japanese insurers Fortress represente

FLASHBACKS

85 YEARS AGO IN FORBES | JULY 26, 1919

Money Before Art Two multimillionaires recently died in New York. They were pitiable specimens of the human race. Each had gold as his god and could not enjoy any of the beautiful things of life. One day an acquaintance was talking about beautiful pictures to one of these Mammon-worshippers, but the only comment elicited was: "I can never look at an old master without seeing through the picture to the back of the canvas and seeing written thereon the cost in interest to the owner." This thought was so painful to him that he could never for a moment consider the purchase of such a work of art.

80 YEARS AGO IN FORBES | OCTOBER 1, 1924

The Beauty of Wealth Isn't nearly all the ranting against riches the sheerest humbug, the sheerest insincerity, the sheerest nonsense? For is it not true that every normal man aspires to make headway in the world, to rise in the line of work, to attain success? And is not one of the normal accompaniments of success an increase in financial rewards?

20 YEARS AGO IN FORBES | OCTOBER 1, 1984

Rich List Math Calculating the wealth of the riche Americans is like trying to keep score in a high-stakes, permanen

floating poker game wi hundreds of players a never a break in the actio Takeovers, mergers, acqui tions, leveraged buyouts a other megadeals, so involving millions of dolla were at a historic high in t past year. The Stuarts, t example, had $600 million Carnation stock when priced it for this listing August; the same stock w worth about $720 milli after Nestlé bid for it September.

30,000,000 PEOPLE SHARE INFORMATION WIRELESSLY. THE QUESTION IS, WITH WHOM?

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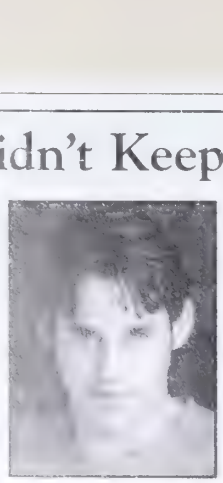

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FOLLOW-THROUGH

One of those firms, Nissan Fire an Marine Insurance (now Sompo Japan In surance), filed a civil suit against Fortres Sabbah and his partner, Kenneth Korn feld, contending that the executives too part in a "complex scheme involving im proper accounting and deceptive finan cial reporting" to defraud it. Sabbah anonymous no more, claimed his compa nies had done nothing wrong and in sisted that the Hebrew Academy, whic FORBES identified as a potential target o the Japanese insurers, would survive.

But the bad news kept comin Despite Fortress Re's defense of i accounting practices, in December 200 an arbitration panel found it guilty o fraud and "willful and deliberate miscon duct," and ordered it to pay $1.1 billio in damages to Sompo Japan.

In July Sabbah, 75, and Kornfeld, 5 quietly settled with Sompo and two othe insurers, turning over personal asse worth more than $400 million. Accordin to the *Greensboro News & Record*, Korn feld, known for his lavish lifestyle, surren dered his historic Greensboro estate— worth $6.5 million—along with an $ million Aspen home, a property on tor Figure Eight Island on the North Carolin coast, three apartments in New York's Mi lennium Tower, a Gulfstream III jet an antiques and other furnishings. Sabbah whose tastes are more modest, is keepin his simple ranch house in Greensboro, bu had to fork over nine digits' worth of cas and securities.

The cruelest blow may yet com Sompo has pending claims in U.S. Distri Court in Greensboro against the Amer can Hebrew Academy and the Oklahom City Community Foundation, one of th charities where Sabbah parked money t fund his school. No court date has bee set. In order to avoid jeopardizing its su vival, the American Hebrew Academ with its 100-acre campus and its high-en buildings, is expected to enter into a se tlement with the Japanese insurance com panies. Their claims are that AHA receive funds fraudulently conveyed to them b Sabbah. Steven Kee, the American Hebre Academy's dean of academic affairs, say "We'd all like it to be settled, but I don know when that will be."

—*Lisa Schee*

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Reality Bites

Television is dominated by knuckleheads, liars and bozos. Who better than The Forbes 400 to raise the bar? BY JOE QUEENAN

BILLIONAIRES ARE AMERICA'S most underutilized entertainment resource. Frequently invisible, often mysterious, occasionally boring, but never explicitly foolish in the way that most TV personalities are, billionaires do not appear on television with anywhere near the frequency that they should. Though they are arguably the most important people in this society, the ones who spark the trends, shape the attitudes and introduce the products that affect all of us, they are rarely seen on the tube.

Tragically, the airwaves are dominated by knuckleheads, liars and bozos. This is because Mother Nature usually gives brain-dead human beings very good hair and tight butts to compensate for what it left out in the cerebral division. The general absence of actual brainpower and/or sophistication is particularly evident in the world of reality TV programming. Here the public is fed a steady diet of idiotic programs featuring airheads, slimeballs, bimbos, jerks, sluts, wannabes, phonies, morons and Judas Iscariots. The shows are usually made on the cheap, and look it. The contestants are invariably nitwits or churls, many of them falling into that broad, general class that cultural anthropologists define as "losers."

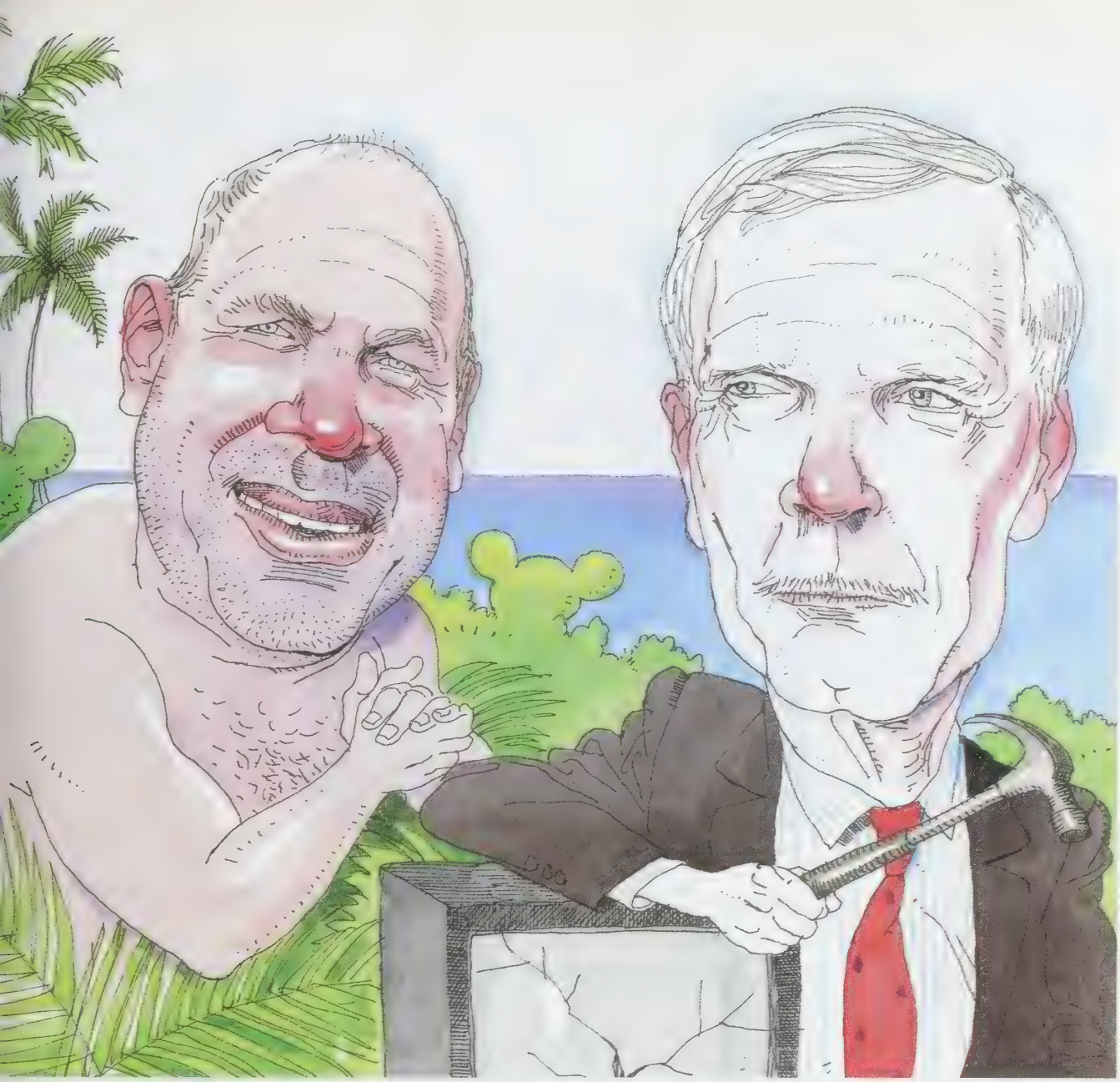
Thank God, then, that we can at least fall back on *The Apprentice*, with its super-high-quality host and contestants. The bewildering, unprecedented success of Donald Trump (No. 74) and his breakout showcase has opened the door for many more members of The Forbes 400 to step out of the closet and provide the American public with the high-class, sophisticated entertainment it has not been getting from VH-1 and MTV. True, Mark Cuban (No. 215) and Englishman Richard Branson have already signed on to appear in stirring reality shows, but one hopes this is only the beginning. Humbly, but enthusiastically, we present our own ideas for reality shows starring members of The Forbes 400.

The bewildering, unprecedented success of Donald Trump's breakout showcase has opened the door for many more members of The Forbes 400.

Merge This! Stephen Case (No. 363) once

masterminded the AOL-Time Warne merger. Thanks, Steve! Now he hosts game show where contestants attempt t devise the most stupefyingly unlikely merg ers, weird hybrids where the disparate cu tures are most likely to clash: Starbucks an General Motors, IBM and Whole Food Market, Apple and Wal-Mart. Winners lan entry-level jobs as "content suppliers" fo Third World ISPs, portals and search en gines. So do the losers.

Mom Always Liked You Best. Lowe Milken (No. 369) and his far more famou brother, Mike (No. 278), star in this siblin rivalry show where real-life mothers get t decide which of their children has a fabu lous career and grabs all the headlines an which ends up about as famous as mos



vice presidents. Loads of good-natured banter between those lovable scamps!

You're Fired? I'm Not! Every week real-life shareholders devise cunning reasons to accelerate the planned year 2006 departure of Michael Eisner *(see "Dropouts," p. 70)* from the helm at Disney. One week it's flat attendance at theme parks. The next week it's paltry ratings at ABC. The following week it's the release of another dopey animation flick involving bears. Watch in mounting disbelief as the resourceful Eisner survives one attempted palace coup after another, rapidly replacing Richard Hatch as the most Machiavellian "survivor" in the history of television. Cohost: Roy Disney.

The Bite the Hand That Feeds You Show. After creating one of the most powerful media empires in the world, Ted Turner (No. 118) now deplores media consolidation. Who then is better suited to host a program where contestants compete to see who can best trash their own careers? Schoolteachers rip dumbass administrators, athletes ridicule the sports they've just retired from, doctors blame sick people for everything. Winners receive a lifetime supply of riveting, high-minded Bill Moyers' TV specials.

Hangin' With the Ziffs (No. 165). Year in, year out, Daniel Morton Ziff comes in tied with Dirk Edward Ziff and Robert David Ziff on The Forbes 400. Something's gotta give! Three teams of contestants hold bake, rummage and garage sales to break this infuriating tie. Could spawn a popular spinoff involving the Waltons.

Obviously, many other possibilities present themselves. Mike Bloomberg (No. 34) could host a reality show involving Amish teenagers who are trying to give up smoking. George Lucas (No. 60) could do a show where geeks compete for the honor of writing the screenplay for *Stars Wars X: The Final Prequel.* Most exciting of all: *Limousine Liberal,* where real-life liberals (Susan Sarandon, Whoopi Goldberg, Michael Moore) race each other in stretch limousines. The host, of course, will be George Soros. He's No. 24 on the list. George will pay for the gas and food. Which, in Michael Moore's case, could bankrupt him. F

The Fakes

It takes a certain chutzpah to impersonate members of The Forbes 400 and other prominent families. You can make a little money off it—until you get caught BY WILLIAM P. BARRETT

HE SHOWED UP ONE DAY IN the swank Hamptons beach resort area of New York's Long Island, introducing himself as Christopher Rockefeller. In a strong French accent he told the swells he hailed from the little-known Gallic branch of the famously fixed family whose members have graced every Forbes 400 list since its 1982 inception.

With such a moneyed name and an ex-*Playboy* model for a wife, Christopher was accepted into the society crowd—until he stole $200,000 and defrauded assorted investors, many of whom he met through society circles, of another $1.2 million by promising them big returns in exchange for advance fee payments.

French toast: Christopher Rocancourt (a.k.a. Rockefeller).

He was Christopher, all right—Christopher Rocancourt, a convicted criminal in his native France wanted in Los Angeles for a passport bribery scheme and who reportedly had once posed as, among others, the nephew of filmmaker Dino De Laurentiis. Rocancourt, 37, pleaded guilty on both coasts, as well as in Canada, where he was jailed a year for swindling $100,000 posing as a race car driver. He is now serving a five-year federal prison sentence, after which he likely will be deported to France. Unabashed, he's written a book about his life and, says his lawyer, Victor Sherman, a movie is on the way.

Rocancourt is one of about 30 folks we found who over the last decade managed to get people to part with their money by posing as members of well-known families with access to great wealth or influence. Some of this group posed as star athletes or musicians such as lead Creed guitarist Mark Tremonti. At times their game wasn't money but sex or pricey medical treatments.

Nearly all of the 30 got caught, but often not before inflicting financial harm. French novelist Honoré de Balzac once wrote, "Behind every great fortune there is a crime." He could have said: Behind many a great crime there is a fortune.

Many of these scammers are smart enough to avoid impersonating the family leader, whose image might be well-known. Like Rocancourt, they often present themselves as a close relative.

In 1997 an Iranian immigrant named Anoushirvan D. Fakhran badly wanted to attend a suburban Washington, D.C. Catholic high school. Press accounts say he changed his name legally to Jonathan Taylor Spielberg, lowered his stated age from 27 to 16 and duped the school into thinking he was the nephew of director (and Forbes 400 member) Steven Spielberg. He drove to school in a BMW sporting the license plate "SPLBERG." Fakhran later pleaded guilty to forgery for submitting phony school forms and drew an 11-month suspended sentence.

Benjamin Maybanks lived in a one-bedroom apartment in the New York Cit borough of Queens, which, judging fror extensive press coverage, is about as clos to royalty as he ever got. But he change his name to Sultan Ibn Chandler Sabah a Sabah Dantata and said he was a son c the fabulously wealthy Kuwaiti royal fam ily. He then romanced $110,00 out of two highly impressionabl Japanese women. He was foun out only because the ladies me and discovered in comparin notes about their happiness i America that they had the sam exotic and rich boyfriend. In Jun a New York judge sent away th would-be prince, 41, for 11 t 22 years.

Then there was the man wh made headlines in Denver severa years ago telling folks he was A Patrik Pahlavi, nephew of the lat Shah of Iran, Mohammed Rez Pahlavi, and worth "billions. Suspicions arose after he couldn meet hotel and wardrobe bil while trying to entice locals int dubious investment deals. Polic determined his real name wa Valliola Gnassemi Dakdare and that h had entered the U.S. on a fake Belgia passport. Dakdare pleaded guilty to thef and criminal impersonation charges an was sentenced to 3½ years.

Another time-honored con is t claim a piece of an ancient fortune. A described by Philadelphia newspaper Tereza Solomon Demoody la-dee-dahe around town claiming she was a descen dant of Revolutionary War financie Haym Salomon (despite the spelling dis crepancy) and heiress to his $47 millio fortune. She rode limos and stayed at th fancy Ritz-Carlton Hotel. Harve Sklaroff, a suburban real estate broke lent her $80,000 after she said she wante to avoid withdrawals from a $20,000-a month trust fund because of heavy taxa tion. Alas, it turned out that Salomo had died childless and poor and tha Demoody was a widow, who herself ha filed for bankruptcy a decade earlier. I 2003 she was found guilty of thef by deception and writing bad checks Sentence: 12 to 23 months.

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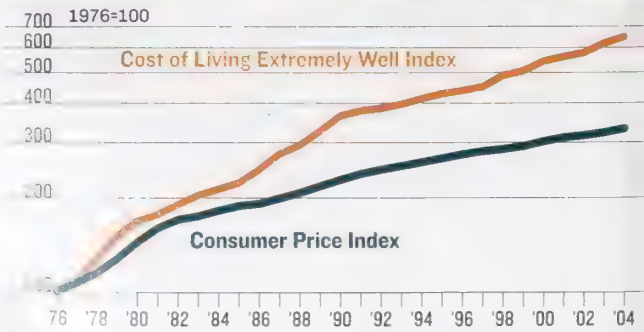
The Cost of Being Rich

While the overall Consumer Price Index climbed 3% over the last 12 months, FORBES' index of 41 luxury goods climbed an average 4.2%.

BY JODY YEN

	2003	2004	Change
Coat/natural Russian sable, Maximilian at Bloomingdale's Despite the increasing popularity of fur, the cost of this classic fur coat remains the same.	$160,000	$160,000	0%
Shirts/one dozen cotton, bespoke, Turnbull & Asser, London Men's apparel has only incurred a 1% cost increase, but those seeking English tailoring need to pony up 4%.	$3,000	$3,120	4%
University/Harvard, one-year tuition, room, board, insurance Even with a $23 billion endowment, Harvard is charging 5% more for another year of undergraduate education.	$37,928	$39,880	5%
Champagne/Dom Perignon, case, Sherry-Lehmann, N.Y.C. Celebrating with fine bubbly has kept pace with inflation.	$1,391	$1,439	3%
Piano/Steinway & Sons, concert grand, Model D, ebonized Buying a new Steinway piano will cost you 4% more, but the piano's value is expected to appreciate over time.	$92,800	$96,100	4%
Cigars/Aniversario No. 1, Dominican Republic, 25 cigars, Davidoff, N.Y.C. As the price of tobacco leaf falls, so does the price of these premium cigars.	$738	$663	-10%
Shotguns/pair of James Purdey & Sons, Griffin & Howe, Bernardsville, N.J. The weak U.S. dollar has made these British-made shotguns more expensive.	$147,000	$167,000	14%
Airplane/Learjet 40, standard equipment, certified, six passengers Although the Concorde ended operations last year, jet-setters can still get around in the Learjet 40.	$8,036,000	$8,240,000	3%



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What Year Is This?

BY MATTHEW MILLER

RALPH BARTEL ISN'T YET 40 YEARS OLD, BUT THE OTHER DAY HE JOINED THE RARIFIED RANKS OF THE world's billionaires. Astonishingly, his net worth increased $400 million in 16 days. Even more astonishing is the source of his swelling wealth: an Internet stock. Shades of 1999. Bartel, 38 and a former suit at magazine publisher Gruner & Jahr, is founder and chief executive of Internet travel-deal publisher Travelzoo. He owns 13.3 million shares of Travelzoo, which he started in 1998 to promote low-priced vacation deals from Alamo Rent A Car, American Airlines and Expedia.com. On Jan. 1 those shares (plus 2.2 million stock options) made him worth $130 million. Eight months later the stock was at $45, making Bartel worth $700 million. By mid-September it had soared, inexplicably, to $71—and Bartel was a billionaire.

So is the $18 million (2003 sales) Travelzoo still a buy? Not likely: It trades at a stunning 389 times trailing earnings—four times as high as Google's multiple of 93. In 2000 The Forbes 400 contained 43 Internet and high-tech darlings. Only 16 remain. The rankings include only U.S. citizens, so Bartel, a German, doesn't qualify. But in March 2005 FORBES will publish its annual list of the world's billionaires; the question is whether Ralph Bartel can hang on that long. F

Source: FT Interactive Data via FactSet Research Systems.

FAMILY FORTUNES

These 20 families have fortunes so divided that no one member qualifies for The Forbes 400 | BY PETER NEWCOMB

FAMILY NAME	HOMETOWN	NET WORTH ($MIL)	ORIGIN
DU PONT	Wilmington	$15,000	Du Pont Co.
MELLON	Pittsburgh	11,000	banking
ROCKEFELLER	New York City et al.	9,000	oil
PHIPPS	New York City area	7,300	Bessemer Trust
SCRIPPS (E.W.)	Cincinnati	6,900	newspapers
SMITH	Chicago	4,600	Illinois Tool Works
CHANDLER	Los Angeles	4,300	Times Mirror Co.
BROWN	Louisville	3,500	Brown-Forman Corp.
BACARDI	Puerto Rico, Miami	3,000	liquor
MCGRAW	New York City	2,900	McGraw-Hill
JENKINS	Lakeland	2,700	Publix Super Markets
MCCLATCHY	Sacramento	2,700	newspapers
BLAUSTEIN	Baltimore	2,800	Amoco
MENNEN	Morristown	2,300	The Mennen Co.
ALFOND	Maine	2,200	Dexter Shoe
BUSCH	St. Louis	2,200	Anheuser-Busch
LOUIS (JOHN JEFFRY JR.)	Chicago	2,200	Johnson Wax
GRAHAM	Washington, D.C.	2,100	Washington Post Co.
HILLENBRAND	Batesville	2,100	caskets, hospital beds
NORDSTROM	Seattle	2,100	retailing

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A STAR ALLIANCE MEMBER

Frank plays life straight up.

The Bartender

Sidney Frank sold Grey Goose vodka for $2 billion. At 84 he's planning a new fortune in wine, tequila and energy drinks | BY MATTHEW MILLER

JUST ABOUT EVERY MORNING SIDNEY FRANK, THE 84-YEAR-old liquor baron, climbs into his $400,000 Mercedes Maybach and is driven to one of four golf courses in upstate New York. He's not there to play the game; he's too frail to swing a club. Instead, at the wheel of a golf cart he leads a team of aspiring pros across an exclusive course where he plays vicariously. In his gruff, gravelly voice, Frank tells his players what clubs to use, where to hit the ball and how to play the angles on the green. In addition to their $50,000 salaries, Frank pays his pawns cash after every hole: $1,000 for a double eagle, $500 for an eagle, $100 for a birdie—plus $500 to the round's winner.

Frank can indulge his eccentricities. In June he sold Grey Goose vodka for a jaw-dropping $2 billion to Bacardi Ltd. The sale—the largest in liquor-business history for a single brand—solidified his spot in the booze business pantheon. It also landed him on The Forbes 400. His personal proceeds from the dea plus a 75% stake in Sidney Frank Importing, make him worth a least $1.6 billion.

That's enough scratch to make your average octogenaria seriously consider retirement. But Frank wants more. He wan to create another fortune with premium tequilas, low-price wines and energy drinks. "At my age, you either stay busy o die," says Frank, smoking a custom-made Davidoff cigar in h bedroom, where he spends most of his days watching Worl War II movies on a 72-inch television.

Frank has plenty of hurdles to overcome. While vodka mixable with just about anything, tequila is typically seen as shot product by boozehounds, making it harder to achieve th volume of Grey Goose.

His new line of Italian wines, sold under the label "Sidne Frank Selection," will encounter a market saturated with thou sands of labels. Frank plans to undercut the competition by offe ing $10 bottles in stores where the average Italian bottle sells fo $25. "To be a success in wine, you can't be in a niche," he explain "You have to be all over the place." Accordingly, Frank is hoardin wines in Australia, Chile and France.

On the opposite end of the beverage business, Frank is try ing his hand at the $1.1 billion U.S. energy drink market. In joint venture with hip-hop entrepreneur Lil' Jon, Frank create Crunk, a pomegranate-flavored beverage designed to arouse an invigorate. So far it's been a hit. Crunk has sold 35,000 cases fo $400,000 since April in urban markets like Atlanta and Ne York. "If I can get 10% of Red Bull's market, I'll make a lot o money," he says.

The more to give away perhaps. Each of his 200 employee will benefit from the Grey Goose sale; workers who have bee with the company ten years will receive two year's salary as bonus. Frank also donated $100 million to Brown (which h attended for a year), providing scholarships for students wh can't afford the $31,000-a-year tuition. The gift is tax deductibl and he receives about $17 million a year in annuity payments (pays for itself in just four years).

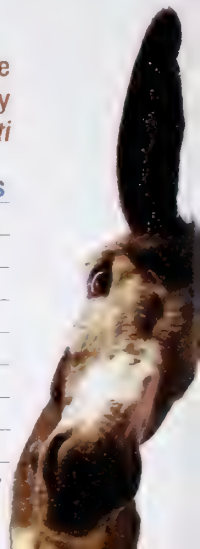
Just another savvy move from Sidney Frank.

BUSH WINS—AMONG RICH LISTERS

Members of The Forbes 400 overwhelmingly support President Bush—judging by their pocketbooks. Of the 240 rich listers who contributed money to either campaign directly, a whopping 72% gave to Bush. Only 28% support Democratic nominee John Kerry. Below, a sampling. —*Jackie Brown and Danielle DiPenti*

BUSH CONTRIBUTORS	KERRY CONTRIBUTORS
Bill Gates	Anne Cox Chambers
John Walton	Herbert Sandler
Michael Dell	Marion Sandler
Steve Ballmer	Sumner Redstone
Rupert Murdoch	George Soros
Kirk Kerkorian	Eli Broad
Michael Bloomberg	Patrick McGovern
Steve Wynn	Irwin Jacobs

Sources: Forbes; Opensecrets.org



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Dropouts

Creating wealth is only part of the game. Preserving it is just as tricky. There's always a chance we'll be seeing some of these names again in the future. | BY DAVID ARMSTRONG

Abramson, Leonard
Aetna

Anselmo, Mary
PanAmSat

Baker, Jay H.
Kohl's

Burrell, Gary L.
navigation equipment

Butler, Sarah Turner
Coca-Cola

Carsey, Marcy
television

Casden, Alan I.
real estate

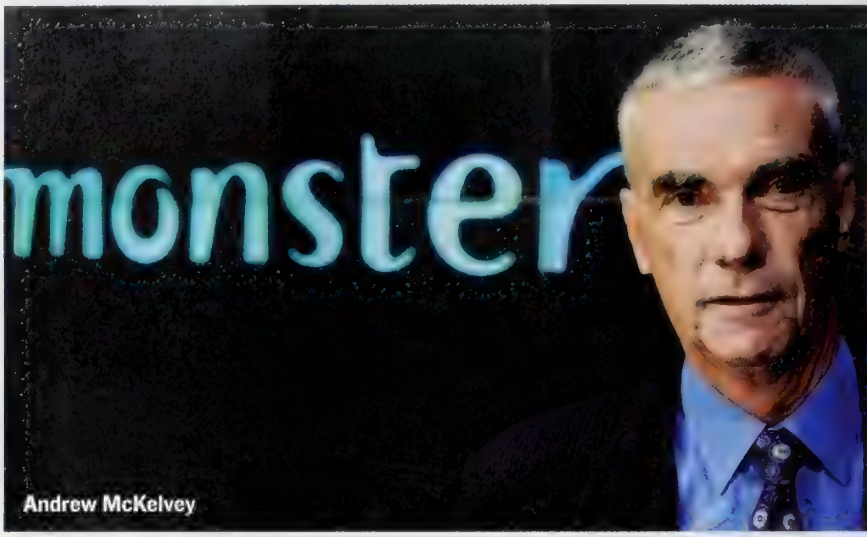
Chace, Malcolm & family
Berkshire Hathaway

Chernick, Aubrey
software

Clark, James H.
Netscape

Congel, Robert J.
shopping centers

Robert Johnson



Andrew McKelvey

Corn, Elizabeth Turner
Coca-Cola

Dedman, Nancy & family
country clubs

Dehaan, Christel
time shares

Eisner, Michael D.
Walt Disney

Feld, Kenneth
circus, entertainment

Forstmann, Theodore
leveraged buyouts

Friedkin, Thomas
cars

Gerstner, Louis V. Jr.
IBM

Gold, David & family
99 Cents Only Stores

Green, Joshua III
inheritance, banking, real estate

Haworth, Richard G.
office furniture

Herma, John
Kohl's

Hicks, Thomas O.
leveraged buyouts

Johnson, Bobby Ray Jr.
Foundry Networks

Johnson, Robert L.
Black Entertainment Television

Khosla, Vinod
Sun Microsystems, venture capital

Kimmel, Sidney
Jones Apparel

Koch, Frederick Robinson
oil

Koch, William Ingraham
oil

Krehbiel, Frederick A.
Molex

Levine, Stuart Robert
Cabletron Systems

McEvoy, Nan Tucker
publishing

McKelvey, Andrew
Monster.com

Neubauer, Joseph
Aramark

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FORMATION

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t is used to treat erectile
sfunction (ED). Men taking nitrate
ugs, often used to control chest
n (also known as angina), should
t take LEVITRA. Men who use
ha-blockers, sometimes prescribed
high blood pressure or prostate
oblems, also should not take
VITRA. Such combinations could
use blood pressure to drop to an
safe level. You should not take
VITRA if your doctor determines
t sexual activity poses a health
k for you. Men who experience
erection for more than four hours
ould seek immediate medical
ention. LEVITRA does not protect
ainst sexually transmitted diseases.
e starting dose of LEVITRA is 10 mg
ken no more than once per day.
ur doctor will decide the dose
t is right for you. In patients
king certain medications
ch as ritonavir, indinavir,
toconazole, itraconazole,
d erythromycin, lower doses
LEVITRA are recommended,
d time between doses of
VITRA may need to be
ended. In clinical trials, the
st commonly reported side
ects were headache, flushing,
stuffy or runny nose. LEVITRA
available in 2.5-mg, 5-mg,
mg, and 20-mg tablets.

E NEXT PAGE FOR ADDITIONAL
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(See "Who Should Not Take LEVITRA?")

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LEVITRA does not:

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- increase a man's sexual desire
- protect a man or his partner from sexually transmitted diseases, including HIV. Speak to your doctor about ways to guard against sexually transmitted diseases.
- serve as a male form of birth control

LEVITRA is only for men with ED. LEVITRA is not for women or children. LEVITRA must be used only under a doctor's care

HOW DOES LEVITRA WORK?

When a man is sexually stimulated, his body's normal physical response is to increase blood flow to his penis. This results in an erection. LEVITRA helps increase blood flow to the penis and may help men with ED get and keep an erection satisfactory for sexual activity. Once a man has completed sexual activity, blood flow to his penis decreases, and his erection goes away

WHO CAN TAKE LEVITRA?

Talk to your doctor to decide if LEVITRA is right for you

LEVITRA has been shown to be effective in men over the age of 18 years who have erectile dysfunction, including men with diabetes or who have undergone prostatectomy.

WHO SHOULD NOT TAKE LEVITRA?

Do not take LEVITRA if you:

- **take any medicines called "nitrates"** (See "What important information should you know about LEVITRA?"). Nitrates are commonly used to treat angina. Angina is a symptom of heart disease and can cause pain in your chest, jaw, or down your arm.

  Medicines called nitrates include nitroglycerin that is found in tablets, sprays, ointments, pastes, or patches. Nitrates can also be found in other medicines such as isosorbide dinitrate or isosorbide mononitrate. Some recreational drugs called "poppers" also contain nitrates, such as amyl nitrate and butyl nitrate. Do not use LEVITRA if you are using these drugs. Ask your doctor or pharmacist if you are not sure if any of your medicines are nitrates
- **take medicines called "alpha-blockers."** Alpha-blockers are sometimes prescribed for prostate problems or high blood pressure. If LEVITRA is taken with alpha-blockers, your blood pressure could suddenly drop to an unsafe level. You could get dizzy and faint.
- **you have been told by your healthcare provider to not have sexual activity because of health problems.** Sexual activity can put an extra strain on your heart, especially if your heart is already weak from a heart attack or heart disease.
- **are allergic to LEVITRA or any of its ingredients.** The active ingredient in LEVITRA is called vardenafil. See the end of this leaflet for a complete list of ingredients.

WHAT SHOULD YOU DISCUSS WITH YOUR DOCTOR BEFORE TAKING LEVITRA?

Before taking LEVITRA, tell your doctor about all your medical problems, including if you:

- **have heart problems** such as angina, heart failure, irregular heartbeats, or have had a heart attack. Ask your doctor if it is safe for you to have sexual activity.
- **have low blood pressure or** have high blood pressure that is not controlled
- **have had a stroke**
- **or any family members have a rare heart condition known as prolongation of the QT interval (long QT syndrome)**
- **have liver problems**
- **have kidney problems and require dialysis**
- **have retinitis pigmentosa,** a rare genetic (runs in families) eye disease
- **have stomach ulcers**
- **have a bleeding problem**
- **have a deformed penis shape** or Peyronie's disease
- **have had an erection that lasted more than 4 hours**
- **have blood cell problems** such as sickle cell anemia, multiple myeloma, or leukemia

CAN OTHER MEDICATIONS AFFECT LEVITRA?

Tell your doctor about all the medicines you take including prescription and non-prescription medicines, vitamins, and herbal supplements. LEVITRA and other medicines may affect each other. Always check with your doctor before starting or stopping any medicines. Especially tell your doctor if you take any of the following.

- medicines called nitrates (See "What important information should you know about LEVITRA?")
- medicines called alpha-blockers. These include Hytrin® (terazosin HCl), Flomax® (tamsulosin HCl), Cardura® (doxazosin mesylate), Minipress® (prazosin HCl) or Uroxatral® (alfuzosin HCl).
- medicines that treat abnormal heartbeat These include quinidine procainamide, amiodarone and sotalol
- ritonavir (Norvir®) or indinavir sulfate (Crixivan®)
- ketoconazole or itraconazole (such as Nizoral® or Sporanox®)
- erythromycin
- other medicines or treatments for ED

HOW SHOULD YOU TAKE LEVITRA?

Take LEVITRA exactly as your doctor prescribes. LEVITRA comes in different doses (2.5 mg, 5 mg, 10 mg, and 20 mg). For most men, the recommended starting dose is 10 mg. **Take LEVITRA no more than once a day.** Doses should be taken at least 24 hours apart. Some men can only take a low dose of LEVITRA because of medical conditions or medicines they take. Your doctor will prescribe the dose that is right for you.

- If you are older than 65 or have liver problems, your doctor may start you on a lower dose of LEVITRA
- If you are taking certain other medicines your doctor may prescribe a lower starting dose and limit you to one dose of LEVITRA in a 72-hour (3 days) period

Take 1 LEVITRA tablet about 1 hour (60 minutes) before sexual activity. Some form of sexual stimulation is needed for an erection to happen with LEVITRA. LEVITRA may be taken with or without meals

Do not change your dose of LEVITRA without talking to your doctor. Your doctor may lower your dose or raise your dose, depending on how your body reacts to LEVITRA.

If you take too much LEVITRA, call your doctor or emergency room right away

WHAT ARE THE POSSIBLE SIDE EFFECTS OF LEVITRA?

The most common side effects with LEVITRA are headache, flushing, stuffy or runny nose, indigestion, upset stomach, or dizziness. These side effects usually go away after a few hours. Call your doctor if you get a side effect that bothers you or one that will not go away

LEVITRA may uncommonly cause:

- **an erection that won't go away (priapism).** If you get an erection that lasts more than 4 hours, get medical help right away. Priapism must be treated as soon as possible or lasting damage can happen to your penis including the inability to have erections.
- **vision changes,** such as seeing a blue tinge to objects or having difficulty telling the difference between the colors blue and green

These are not all the side effects of LEVITRA. For more information, ask your doctor or pharmacist.

HOW SHOULD LEVITRA BE STORED?

- Store LEVITRA at room temperature between 59° and 86° F (15° to 30° C).
- **Keep LEVITRA and all medicines out of the reach of children.**

GENERAL INFORMATION ABOUT LEVITRA.

Medicines are sometimes prescribed for conditions other than those described in patient information leaflets. Do not use LEVITRA for a condition for which it was not prescribed. Do not give LEVITRA to other people, even if they have the same symptoms that you have. It may harm them.

This leaflet summarizes the most important information about LEVITRA. If you would like more information, talk with your healthcare provider. You can ask your doctor or pharmacist for information about LEVITRA that is written for health professionals.

For more information you can also visit www.LEVITRA.com, or call 1-866-LEVITRA

WHAT ARE THE INGREDIENTS OF LEVITRA?

Active Ingredient: vardenafil hydrochloride

Inactive Ingredients: microcrystalline cellulose, crospovidone, colloidal silicon dioxide, magnesium stearate, hypromellose, polyethylene glycol, titanium dioxide, yellow ferric oxide, and red ferric oxide.

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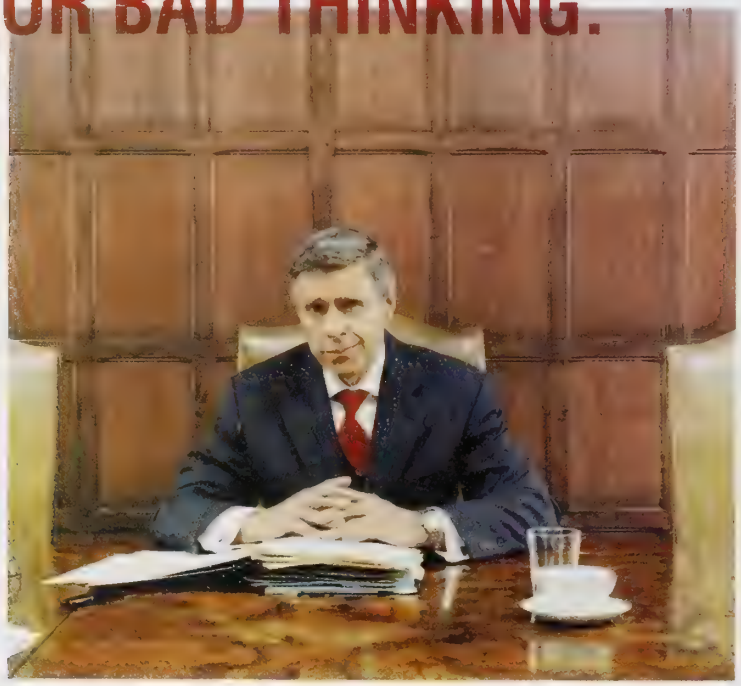

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Who Gives?

FORBES 400 MEMBERS FALL DOWN THE RANKINGS EVERY TIME THEY CUT A CHECK TO CHARITY. HERE WE ADD THAT MONEY BACK.

BY DAVID WHELAN

In 1999 Bill Gates' net worth briefly topped the $100 billion mark. Today his wealth languishes below the $50 billion barrier. Poor guy.

But placing the blame on a dormant Microsoft stock, which is still down more than 50% from its late-1999 high, provides only part of the answer to Gates' decline. The real reason Gates put in play his title to "world's richest man" is his philanthropic giving. As his net worth marched steadily to the 12th digit, all the louder came criticisms that the then-thirtysomething wasn't giving away enough of his fortune to charity.

So over the next three years he relented, donating $23 billion in Microsoft stock to the Bill and Melinda Gates Foundation. Add those shares back, plus his other gifts, and Gates suddenly becomes a whole lot richer—$76.3 billion to be exact—making Warren Buffett once again a distant second.

The Gates Foundation has since made a number of high-profile gifts. But many of the superrich prefer to give out of the spotlight. "Phil and Penny are intensely private people who rarely divulge their philanthropy," e-mails a Nike spokesman, commenting on the charitable giving o his boss, Phil Knight, and Knight's wife.

Eli Broad, who pledged $60 millio last year to the Los Angeles Count Museum of Art, is skeptical that big sho give anonymously: "I'm not aware of ar large gifts that are anonymous." Tha doesn't prove anything about Phil Knigh or any of the others who claim they giv lots to charity anonymously.

One thing is clear: Ours is a charitab nation. Without the creation of wealt our system affords, there would be little o the giving that the world depends on.

	Donated wealth	Net worth	Philanthropy-adjusted	% wealth given away
Bill Gates	$28,291,699,101	$48,000,000,000	$76,291,699,101	37%
Warren Buffett	$321,189,039	$41,000,000,000	$41,321,189,039	1%
Paul Allen	$798,183,920	$20,000,000,000	$20,798,183,920	4%
Michael Dell	$1,255,224,204	$14,200,000,000	$15,455,224,204	8%
Larry Ellison	$151,092,103	$13,700,000,000	$13,851,092,103	1%
Steve Ballmer	$23,449,783	$12,600,000,000	$12,623,449,783	0%
John Kluge	$503,869,800	$11,000,000,000	$11,503,869,800	4%
Pierre Omidyar	$357,715,858	$10,400,000,000	$10,757,715,858	3%
Sumner Redstone	$78,367,127	$8,100,000,000	$8,178,367,127	1%
Phil Knight	$64,771,782	$7,400,000,000	$7,464,771,782	1%
George Soros	$5,437,283,942	$7,200,000,000	$12,637,283,942	43%
Eli Broad	$1,613,074,469	$6,000,000,000	$7,613,074,469	21%
Michael Bloomberg	$132,045,031	$4,900,000,000	$5,032,045,031	3%
David Geffen	$182,921,433	$4,400,000,000	$4,582,921,433	4%
Gordon Moore	$6,760,929,624	$3,800,000,000	$10,560,929,624	64%
Steven Spielberg	$96,970,456	$2,600,000,000	$2,696,970,456	4%
Jon Huntsman	$497,034,993	$2,300,000,000	$2,797,034,993	18%
Bernard Marcus	$263,095,612	$2,000,000,000	$2,263,095,612	12%
Ted Turner	$798,701,861	$1,900,000,000	$2,698,701,861	30%
Alfred Mann	$607,649,613	$1,400,000,000	$2,007,649,613	30%

Source: Forbes.

Note: Totals do not include unpaid pledges. All gifts were adjusted into 2004 dollars.

Warren Buffett
Paul Allen
Larry Ellison
Dell
Omidyar
George Soros
Gordon Moore
Steve Ballmer
Phil Knight
Sumner Redstone
David Geffen
John Kluge
Ted Turner
Bernard

Where the Big Gifts Go

Arts and educational institutions collected most of the recent $100 million-plus gifts and pledges from The Forbes 400. Except for Joan Kroc's bequest to the Salvation Army, the down-and-out aren't poised to inherit the earth.

	Gift or pledge	Recipient	Year
Joan Kroc	$1.5 billion	Salvation Army	2004
Walter Annenberg	$1 billion	Metropolitan Museum of Art	2002
Gordon Moore	$300 million	California Institute of Technology	2001
Ted Turner	$250 million	Nuclear Threat Initiative	2001
Thomas Monaghan	$220 million	Ave Maria University	2002
David Geffen	$200 million	UCLA School of Medicine	2002
Joan Kroc	$200 million	National Public Radio	2003
Sidney Kimmel	$150 million	Johns Hopkins University	2001
Jon Huntsman	$125 million	University of Utah	2000
Irwin Jacobs	$110 million	University of California-San Diego	2003
Irwin Jacobs	$100 million	San Diego Symphony	2002
Ruth Lilly	$100 million	*Poetry* magazine	2002
Paul Allen	$100 million	Allen Institute for Brain Science	2003
Alfred Mann	$100 million	Technion - Israel Institute of Technology	2004

Source: Forbes; Chronicle of Philanthropy.

Note: Large gifts listed here do not include those made to endow foundations, such as the Gates or Moore foundation gifts.

Ten Richest in History

Andrew Carnegie practiced what he preached in his "Gospel of Wealth" manifesto. But it's not clear that other billionaires of yore were more philanthropic than today's rich.

	Lived	Source	Wealth	Wealth as % of GDP	Philanthropy	% given
John D. Rockefeller	1839-1937	Oil	$1,400,000,000	1/65	$500,000,000	36%
Cornelius Vanderbilt	1794-1877	Shipping, railroads	$105,000,000	1/87	$1,000,000	1%
John Jacob Astor	1763-1848	Fur, real estate	$25,000,000	1/107	$0	0%
Stephen Girard	1750-1831	Banking	$7,500,000	1/150	$6,000,000	80%
Andrew Carnegie	1835-1919	Steel	$475,000,000	1/166	$475,000,000	100%
Alexander T. Stewart	1803-1876	Merchant	$80,000,000	1/178	$100,000	0%
Frederick Weyerhaeuser	1834-1914	Lumber	$200,000,000	1/182	$0	0%
Jay Gould	1836-1892	Investing	$75,000,000	1/185	$2,000,000	3%
Stephen Van Rensselaer	1764-1839	Inherited land	$10,000,000	1/194	$2,000,000	20%
Marshall Field	1834-1906	Real estate, retail	$140,000,000	1/205	$12,000,000	9%

Source: The Wealthy 100 by Michael Klepper and Robert Gunther.

Note: Wealth includes philanthropy.

They Gave Too Much

Forbes 400 members usually fall off the list when they die or their businesses go bust. These three gave away their money.

	Current net worth	Gave away	Total	Last on list	Would be ranked
James Stowers Jr.	$716,000,000	$1,191,921,192	$1,907,921,192	2003	118
American Century mutual fund honcho sold to J.P. Morgan and gave much of the proceeds to support cancer research.					
Thomas Monaghan	$550,000,000	$533,768,071	$1,083,768,071	1999	260
Domino's Pizza founder founded Ave Maria University. Regrets not investing in Mel Gibson's *The Passion of the Christ*.					
Richard Goldman	$300,000,000	$615,112,169	$915,112,169	2000	337
Wife, Rhoda, inherited stake in Levi's jeans; took cash from company's 1996 LBO; awards the Goldman Environmental Prize.					

Source: Forbes.

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Where Everyone Can Overachieve

LARRY ROSENSTOCK IS DOING WONDERS WITH DISAFFECTED HIGH SCHOOLERS IN SAN DIEGO, THE FIRST STEP IN A GRAND PLAN TO REVERSE AMERICA'S FAILURE AT MASS EDUCATION. THE NATION'S RICHEST PHILANTHROPISTS ARE LINING UP BEHIND HIM.

BY VICTORIA MURPHY

Rosenstock, High Tech High's cofounder and principal, mixes with the kids in the Great Room.

Story starts on page 82 ►

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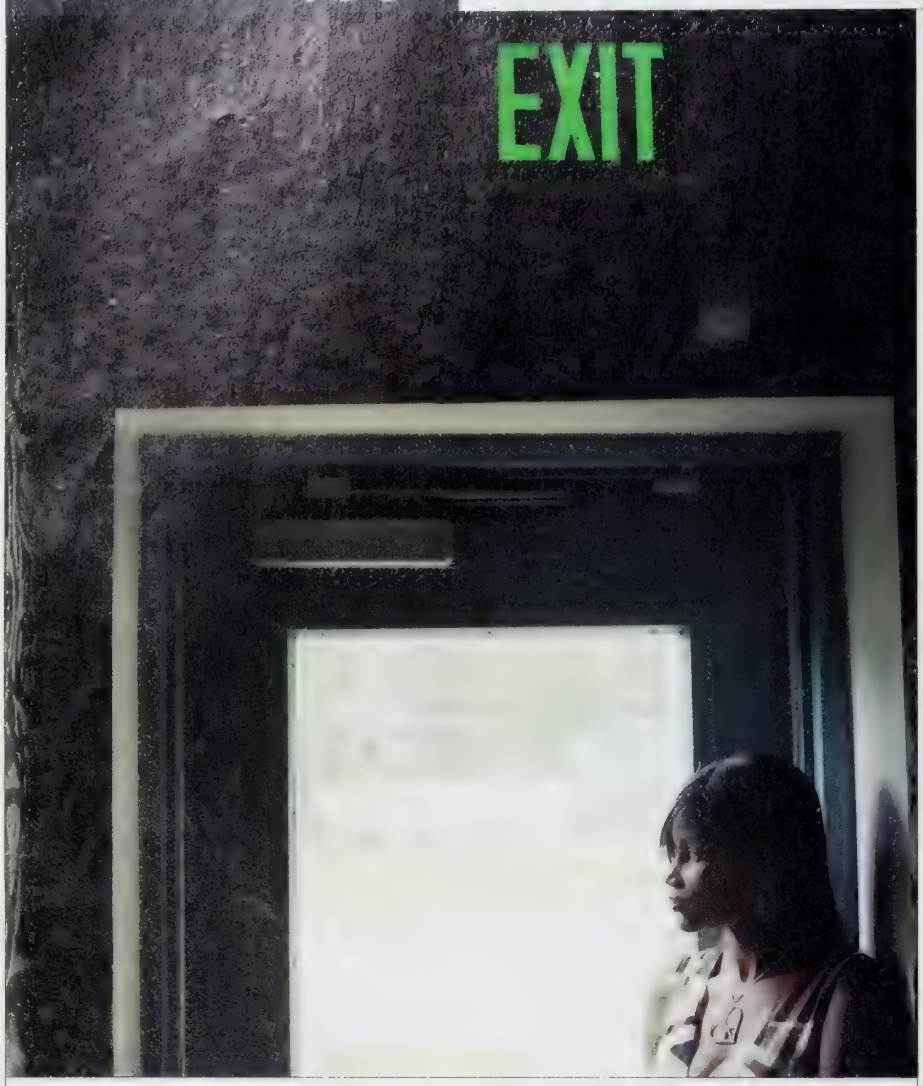

Sasha Knox was a bad kid in junior high, but found her way up at High Tech High. Teachers got on her case relentlessly, and now she's a straight-A senior with an eye on college.

AS AN EIGHTH-GRADER AT KROC Middle School in San Diego, Sasha Knox was trouble. She would throw punches at kids and hurl vitriol at teachers. Security guards once had to drag her out of history class while the teacher stood by, sobbing. Her great-grandfather was an alcoholic. Her grandmother, on drugs, slept in the streets. Her dad had left home, and her mother, a bipolar who smoked pot three times daily, was stumbling on and off welfare.

She was the kind of kid no one bothered to save. Four years ago a friend persuaded her to attend an experimental high school called High Tech High. It's a three-hour commute by bus and trolley each way from her shabby one-bedroom apartment in southeast San Diego to the school in Point Loma, a sun-bleached bayside community.

At High Tech, when Sasha rolled around the floor screaming, she got an arm around the shoulder and guidance. Her English teacher noticed that Sasha's troublemaking would always start because she finished her class assignments early. So her teachers boosted the workload. For a while she had only one minute to get from class to class, with a teacher escort. "They told me it was a privilege to be here and I had to stop acting like a brat," she says.

Sasha is a senior now. With a report card of straight As, she's applying to Clark Atlanta University and UC, San Diego. She writes poetry and is on th prom committee and student counci She goes in on weekends to help organiz data for the school's state report card.

High Tech High has enrolled 650 kid since 2000 and produced two graduatin classes, in 2003 and 2004, of 49 and 10 students, respectively. All students go t college, with 80% heading to four-yea institutions (among them UC, Berkele Stanford, Northwestern, MIT and John Hopkins). Fifty-six percent were the firs in their families to attend college; in som cases, the first to finish high school. Stu dents at High Tech High test better tha peers statewide. (In physics, for exampl 42% reach proficiency versus 17% i California.) Everyone at High Tech grad uates, too. At San Diego High only thre out of four who start ever graduate.

This new school's philosophy, pu into practice every day by its principa and chief executive, Larry G. Rosenstoc is that if you treat kids like adults, eve the most bruised and battered will pla up to the role. There are no bells to mar class times, yet most students show u before class begins. Doors are unlocke from 7 a.m. to 6 p.m. with no securit guards. The only graffiti is an urban inspired art project hanging in th school's sunlit hallway. Kids caught wit drugs or alcohol are kicked out for a fu semester, but this has happened just twic in the school's four-year existence.

Rosenstock, 56, is betting that schoo like this one can work anywhere, as lon as they're kept small. Size, he says, is on of the things that doom city high school "These are factories, not places you wan to go to learn." Nationwide, 30% o ninth-graders drop out before gradua ing. One study of 2,000 big schools foun a 40% dropout rate.

High schools are failing to do the tw things they're supposed to do: help fam lies move up the economic ladder an provide skilled labor for businesses. In survey done by Public Agenda in 200 employers and college professors rate the majority of high schoolers fair o poor in the basics—grammar an spelling, addition and subtraction, wo

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habits. Without a diploma, jobs are tougher than ever to come by. In the next few years 70% of the fastest-growing job categories will require education beyond high school, according to the Department of Labor. Traditionally, elementary schools got the reform dollars. High schools receive only 5% of federal funds for low-performing schools.

The small-school movement has galvanized the foundations of the wealthiest Americans, including Bill Gates, Michael Dell, the Walton family, Qualcomm's Jacobs family and Gap's Donald and Doris Fisher. The Bill and Melinda Gates Foundation has pledged $647 million over the next four years to build 1,457 small high schools similar to High Tech High. Much of that money will go toward chopping up big, dysfunctional urban high schools into miniacademies. (San Diego High was split into six small schools this year.)

In four years Rosenstock has created a network of ten new urban charter schools, five in California, with others in Arizona and Illinois. Another five schools are opening in the fall of 2005, including ones in New Mexico and Massachusetts. Though these new schools will rely mostly on public funds, they're getting $10 million of Gates' money—$1,000 per student in each of their first three years—and will operate largely outside the rules and unions of the public system.

Like San Diego's High Tech High, each of these schools has fewer than 500 kids and a more narrowly focused curriculum of four classes instead of the usual seven per day. Students at High Tech High often teach each other: In one calculus class the students propose their own questions and answer them in front of everyone else. Internships and group projects replace a lot of textbook reading. Twice the physics class has built a working submarine. A biology class published a 120-page field guide on San Diego's harbor with a foreword by celebrity zoologist Jane Goodall. Rosenstock thinks this encourages a natural pull-up system, where high achievers inspire the less motivated to do better. "You can't do the same thing the same way and expect different results," says Rosenstock.

College will be a welcome escape for Camilo Cuellar, a senior at High Tech. In April he went to a college fair quizzing reps about campus crime rates. He got blank stares.

Each High Tech High pays Rosenstock's organization 8% of its operating budget for a slew of services, including building management, recordkeeping, payroll accounting, audits, technical support, teacher credentials and compliance work (charter schools are required to report to ten different agencies). By some estimates, these same services in a public school system eat 21% of the budget.

But Rosenstock demands that the model not be tampered with. A prospective school in Philadelphia learned that the hard way. Its administrators wanted to track students, separating them by academic ability, a big no-no in Rosenstock's view. "You want to transform where kids are going, not replicate where they've come from," he says. The school lost its shot at a contract and now operates on its own.

San Diego's High Tech High broke even last year on $2.6 million in revenu even though, as a charter school, it or gets 73% of the average $8,100 per pu of taxpayer money that San Diego pub high schools get. Rosenstock hires you teachers, most of them with less than fi years' experience, and puts them on on year contracts. There's no football baseball or band. Rosenstock's salary comparable to that of a headmaster a private independent school.

The teachers at High Tech High ha a hand in budget decisions, spurri them to look for ways to be stingy. At o Wednesday morning meeting they pr posed handing out $20 Starbucks g cards to teachers as incentives for perfe attendance, instead of spending $110 day on substitutes.

This year High Tech High had thr times as many applicants as spots ava able. Though it doesn't cherry-pick t best applicants—students are select

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Benefactors Jerri-Ann and Gary Jacobs have donated $6 million of their Qualcomm fortune toward making High Tech High a role model for small schools around the U.S.

randomly by zip codes—its student body tends to be better off than those at the toughest schools. Families with the smarts to find out about the school and the willingness to fill out the form tend to be higher on the economic ladder. Only 15% qualify for federal free lunches, compared with 40% at San Diego High. Kids willing to put up with long bus rides are likely to be motivated.

Rosenstock is in a controversial line of business. There are 3,300 charter schools in the U.S., educating 800,000 students, or 1.6% of the total enrolled in the public system. Nationwide 9% of charter schools created in the last decade have closed down, often for financial reasons. This August 60 charter schools run by an organization in Victorville, Calif. shut down, leaving thousands of students suddenly school-less. The American Federation of Teachers argues many kids in charter schools are actually worse off than those in the public system.

But Rosenstock thinks he can prove his system works with even the toughest cases, so he's sending his students to go recruit others in churches and community centers in the city's poorest neighborhoods. He is negotiating with San Diego's transit chief to get more bus lines aimed at High Tech High. He delves into the school's funds to offer bus coupons, lunches and even SAT fee waivers.

His days are spent finagling for resources. For three years the San Diego school district forced High Tech High n only to forgo $190,000 in special educ tion funding but also pay $130,000 cover the district's overall deficit. On to of that it had to use some iffy specialis sent by the district. One speech therapi struggled with English. "I could n understand one word this woman sai and she was claiming kids had hearin deficits," says Rosenstock.

Rosenstock outsmarted the bureau crats last year by joining a school distri 150 miles away just for its special educ tion funding. "The problems are nev because of the kids, the problems a because of adults," he says.

Kids knock on Rosenstock's door day long. He can't walk five feet witho launching stories about each of the ki he walks by. "Great kid. Came from Me ico," he says passing a boy in the school big, airy entrance hall. Rounding the co ner, he spots a girl with her friends a he says, "You should've seen her dan performance. Man, she's got rhythm."

Each year Rosenstock, like all his teac ers, spends two weeks of afternoo schlepping to advisees' homes. One of h was a Cambodian-Vietnamese girl wh lived with eight family members in a tw bedroom apartment. The TV was co stantly blaring. "That was their way of ha ing privacy," says Rosenstock. "I couldn hear myself think." He told her to stay la after school and do her homework the (She's now at UC, San Diego).

Catharine Hart, an 18-year-old gra uate of High Tech High (now a freshma at Cal State, Los Angeles), cruised throug middle school. Her teachers didn't che her homework, so she often just regurg tated questions in spaces left for answe "You knew how to just get by, not noticed too much. Its all about workin the system," she says. When she got High Tech High, she found a system th was too intimate to disappear into. "We the Jewish parents these kids don't hav We're constantly asking them, 'Did you d it? Did you hand in the work?'" says a teacher Jeffrey Robin.

A skeptic would point at High Tec High and insist it cannot be repeate

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When asked how many lookalikes it would take before the original magic wore off, its school director, Benjamin Daley, throws back a question: "How many Larry Rosenstocks are there?"

As a single dad in the late 1970s, Rosenstock went to law school at Boston University, but he would skip classes to teach carpentry to kids with psychiatric problems. He eventually got his degree but continued running woodworking classes. After a few years he started to sense that the practice of segregating vocational students was shortchanging any academic potential these kids had. While in residence at the Harvard Center for Law & Education in the late 1980s, he co-wrote legislation that would redirect funding for vocational education toward classic academics. George H.W. Bush signed it into law in 1990.

Soon after, Rosenstock took the job as principal at Rindge School of the Technical Arts. He was eventually picked to run both Rindge and its sister school, Cambridge Latin, making him responsible for 2,000 students. He lasted six years. Five teachers that he had fired for poor performance ended up at other local schools within months. It took him more than a year to get rid of one teacher, who handed out sex questionnaires to 15-year-old girls. When the school board rejected his plan to merge Latin's vocational training with traditional academics, he left.

He spent the next three years visiting 50 public high schools for a federally funded study of what makes a high school successful. "It was sobering. No one could give us nominations for great schools," he says.

He was soon to meet another frustrated soul on the West Coast, this one with resources. Irwin Jacobs, billionaire founder of San Diego wireless technology firm Qualcomm, was struggling to hire 800 engineers a year, and had to spend thousands of dollars apiece teaching them basic communication skills. Jacobs thought the root of the problem was poor math and science training. He wanted to back a school rich in a tech curriculum, and enlisted his oldest son, Gary.

In December 1998 the Jacobses called a meeting with Rosenstock, who had moved out to San Diego to run Price Club founder Sol Price's $75 million foundation. They talked of either opening a charter school with public money or funding one on their own. Either way it would be small and tech-focused. (This was back in the dot-com bubble of 1998.) Rosenstock couldn't get the idea out of his head. The next morning he phoned Gary with an offer: "I'll build it, start it, then run it." They hurriedly penciled out Rosenstock's contract on the back of recycled letterhead. Qualcomm pledged $100,000 a year for five years.

> "You want to transform where kids are going, not replicate where they've come from."

Rosenstock spent three months trying to find a location, eventually scoring a 105,000-square-foot former Navy training center being used as a book depot for a community college. He had to get permission from the Navy to begin construction. Gary and his wife, Jerri-Ann, donated $6 million. Irwin gave $1 million of his own money and Rosenstock got $1 million from the state.

Rosenstock set out to hire the best teachers he could find, a task he knew would be complicated. Any unionized teacher would lose precious tenure by going to High Tech High, a nonunion shop. Rosenstock tried to get around this by negotiating with the San Diego teacher's union to create a special three-year leave of absence with full tenure if they returned to the public system. The union's board unanimously voted down the deal. Four teachers switched camps anyway; the other eight spots went to recruits from ot fields or right out of college.

For nine months the new st labored out of two trailers in a dusty It was often hot, and more often smelly one of the portable toilets started leak three months into the project. Good f tune brought an unexpected visitor in spring of 2000: the Gates Foundatio education czar Thomas Vander Ark knew after ten minutes we wanted to s port this guy in any way we could," says. A few months later the Gates Fou dation pledged $1,000 per stud enrolled. In July 2000 the school sent 40,000 flyers with applications, filling mailboxes of every eighth-grader in S Diego. The school got 1,000 applica for 150 spots. (Competition for slot easier now since Rosenstock no lon markets the school so widely.)

In the first year students were in c only three hours a day, with unstructu time for individual projects filling af noons. Too many kids filled those ho socializing or playing Internet gar instead of completing assignments. the school ended the classless afternoo filling them with project work clos attended by teachers. "We made m takes," says Rosenstock. "We knew w we didn't want to be more than we kn what we wanted to be."

But the flexibility was paradise kids like Billy Miller. Until High T High, he was bored in class and tried teach himself after school. "I read f books a week," he says. Yearning change (and eager to leave east S Diego's poverty-stricken City Heig neighborhood), Billy rearranged his b room furniture every two weeks. Thou he could have done well at any scho here he learned at a gallop. By senior y Billy was taking college-level courses San Diego City College. He is now freshman at MIT on a full-tuition schol ship. His mother, from Mexico, i cashier in a tortilla factory. She sports MIT baseball cap instead of a hair r "She'd heard of Harvard and Stanfor had to convince her MIT was just good," he says.

If You Believe

PUT YOUR FAITH IN THRIFT, HARD WORK AND MELALEUCA'S HOUSEHOLD PRODUCTS AND YOU CAN BETTER YOUR LOT IN LIFE. ALSO FRANK VANDERSLOOT'S.

BY PHYLLIS BERMAN

A tip of the hat to Amway: VanderSloot created a fortune with a multilevel marketing company.

Story starts on page 90 ▶

FRANK L. VANDERSLOOT SELLS ITEMS LIKE Classic Tooth Polish ($3 a tube), Replenex (90 glucosamine pills for $10) and Nicole Miller Timeless Age Defying Serum ($18 a bottle). He doesn't hit the road himself to ring doorbells. At 56, his sales days are far behind him. He leaves the pitching to an army of part-time hucksters who sell these and 350 other household and "health" products for Melaleuca, his privately held firm in Idaho Falls, Idaho.

Melaleuca is a pyramid selling organization, built along the lines of Herbalife and Amway. Vendors get commissions on the products they sell and also on products sold by vendors they recruit. From a near-standing start 19 years ago, VanderSloot has built his firm up to an expected $620 million in volume this year, roughly half of that to be paid out to the vendors as commissions. A few of them make a very good living off Melaleuca; most do not. Enough of the money lands at the top that VanderSloot's 50% share of the business, we estimate, is worth $700 million.

"This is not a get-rich-quick scheme," says the entrepreneur, referring to what his sales force can make, though he insists that the income of a hard-working "marketing executive" can still "make a real difference to a family earning $30,000," he says.

Such talk sounds patronizing—until you realize that VanderSloot seems to believe his own sermon. Ever since he took over what was then a small and poorly managed company in 1985, he has preached (and practiced) frugality: Live within your means, he frequently tells his sales force, pay off your debts, think twice about that new car. You see it reflected in the 36,000-square-foot headquarters, a two-story concrete affair (and former hardware store) in a strip mall. And, in a departure from many multilevel marketing schemes, VanderSloot is insistent about not burdening new recruits with huge startup costs or a garageful of inventory. Everyone buys a $29 kit, crammed with sales materials for demonstrations as well as VanderSloot's motivational tips, and signs up to buy a minimum of $45 a month worth of Melaleuca wares—fro a $2 Hot Shot, a breath spray, to a $30 bo tle of ProVec CV, a grape seed extract th supposedly reduces LDL, the bad chole terol. (VanderSloot says anyone can o out of the $45 commitment.) Most of t items have a health or environmental fl vor to them, like sunscreen with Vitamin or phosphate-free detergent.

VanderSloot is pretty up-front abo how tough it is for most salespeople earn any money. And unlike, say, Amwa Melaleuca tells its new recruits that they' starting out as customers on the botto of a towering pyramid. There are appro imately 150,000 of these participants, bu ing the soaps and potions for themselv but not yet making any significant sur from their 7% commissions (350,000 pe ple are pure customers). As they move u the rungs, though, they can see some re enue, because they get 7% as well on sal by vendors they have recruited (the cha of commissions extends to seven levels). appears that there are 30,000 or so serio players near the bottom averaging $1,7 a year in commissions.

The big bucks, of course, go to tho who sign a large number of disciples wh go on to recruit other vendors. Seni directors, as they're called, have 650 cu tomers in their network, of whom 25 so are actively recruiting. Executive dire tors claim 2,400 or more customers, wi perhaps 90 of them on the proselytizi trail. This crew of veterans, of whom the are 359, can expect $186,000 a year commissions plus $1,000 a month fro Melaleuca toward their automobile cos Leading producers: three presidenti directors who got commissions toppi $1 million in 2003. VanderSloot thinks fi people will scale those heights this year.

Before VanderSloot bought into t company, it subsisted on a handful products tied to the melaleuca, or "t tree" of Australia. Discovered in Ne South Wales in 1922, the melaleu sprouts leaves that supposedly have an septic and analgesic properties. Co leagues at Cox Communications, whe VanderSloot was a regional vice presider were so skeptical of his move that as

Heavy Breeding

Frank VanderSloot's extracurricular passion is Black Angus cattle, introduced from Scotland in the 1870s and bred for tasty, tender beef. Over the last seven years he has invested $15 million in a herd of 5,000 at Riverbend Ranch in Idaho Falls.

Ranchers particularly prize females, which reach puberty early, calve quickly and easily and continue to breed to a late age. The breed can grow to heavy weights without developing excessive amounts of fat. Slaughterhouses will pay up to $200 more for an 800-pound carcass, highly marbled with a large rib eye, than for a comparable Hereford.

Riverbend is more genetics lab than cattle range. Key to this business is embryo transfer. Females like Blackbird 558H, an 1,800-pound cow, are given hormone shots to stimulate their ovaries; 50 to 100 eggs are harvested seven times a year and implanted into surrogate mothers, producing up to 30 offspring from a single egg donor. (That compares with an average 10 offspring in a decade without implantation.)

Some calves stay on the farm to provide developmental histories, a.k.a. EPDs (expected progeny differences). Example: determining whether there's a correlation between the scrotal size of yearling bulls and the semen production of their male offspring, as well as the ability of their future female offspring to reach puberty earlier and achieve improved fertility. The rest of the young 'uns VanderSloot sells as seed stock to commercial operations that want to improve their herds. One such buyer is Three Trees Ranch in Sharpsburg, Ga., which paid $85,000 for four surrogate mothers, each 60 days pregnant with Blackbird 558H's fertilized eggs, plus a guaranteed four live calves 210 days later.

So how does VanderSloot make out? "I'm breaking even now," he claims. But his far-fetched goal is to pepper that white-faced crowd of 33 million Hereford nationwide with Black Anguses. —*P.B.*

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parting gesture they set up a tree and strung tea bags from it.

VanderSloot soon discovered the company's putative 80% ownership of the tea trees in Australia was really more on the order of 5%. Moreover, Melaleuca's claims about the health benefits of oil extracted from the leaves of the trees were a bit shaky. And distributors were griping about being forced to purchase large amounts of inventory that piled up in their garages.

VanderSloot shut down the company, purchased its inventory, trademarks and product recipes and rechristened it Melaleuca. Half his 1,000 distributors quit. Reason: They couldn't pass along tons of inventory to salespeople below them in their networks, thereby depriving the earlycomers of quick profits. "At the beginning it was just me and some ladies in the office," he recalls.

To rebuild the business, VanderSloot created an R&D department that evolved into a 20-person staff, including three Ph.D. chemists. The company has racked up nine U.S. patents—from inhibiting adenosine (an enzyme that prevents fat-burning) in an energy bar to the use of benzophenone in a shampoo to protect hair from ultraviolet exposure. VanderSloot insists his salespeople also tout the price advantage of his products. Melaleuca's detergent, for instance, costs 6 cents per load versus 28 cents for Tide.

There have been bumps. In 1991 the Idaho attorney general's office investigated Melaleuca because some of its vendors were claiming that the business had the seal of approval of the Idaho attorney general's office, when it hadn't. The company signed an assurance of voluntary compliance, promising to police its sales force. Since then that state office has received 20 complaints about Melaleuca, mostly gripes from customers who didn't realize their credit cards would be automatically debited $45 a month or thought the company too slow to credit their accounts for returned products. The AG's office says it has resolved them all.

A different problem emerged in 1998. When sales flattened, VanderSloot did some digging and discovered that some senior directors were living off their residuals and doing little in the way of recruitment. Result: a new policy that reduced payments to those who didn't either bring in new converts or help others do so. Since then, company revenues have grown at a compound annual rate of 12%.

Most Melaleuca salesfolks work hard and listen to VanderSloot's advice about cleaning up their lives. Cathy Blandino of Las Vegas recently sent him a package containing the shredded remains of her 36 credit cards, on which she owed $64,000, all paid off over five years with help from her company earnings (she scaled back her efforts and brought home $5,800 last year). "We could never have done this without Melaleuca," she added in a note.

Corny incentives go to the heart of VanderSloot's values: hard work, decent rewards and simple living.

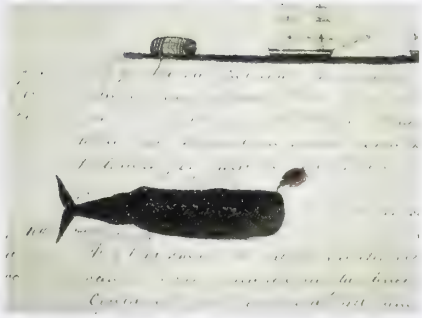
VanderSloot reinforces the message. When one of his sales staff pays off a home, he flies to the nearest airport, shows up and throws a mortgage-burning party. Over the last four years he and his wife, Belinda, went to 31 such events. That's on top of all the incentives to spur sales, from $2 inspirational tapes and an annual Fourth of July party in Idaho Falls (the largest display of fireworks west of the Mississippi) to the lure of car payments and exotic vacations with Frank and Belinda for the biggest producers.

Corny though they are, these gestures go the heart of VanderSloot's values: hard work, decent rewards and simple living. Growing up on a tiny farm in Cocolalla, Idaho, VanderSloot, a devout Mormon, milked cows and fed the chickens while his father worked all week on the railroad. He put himself through Brigham Young University by selling beef jerky in bars and convenience stores. He spent 15 years as a middle manager at ADP and Cox. Though he is a rich man today, VanderSloot is only now allowing himself a few indulgences—a herd of Black Angus (*see sidebar, p. 90*) and a recently built 10,000-square-foot, 17-bedroom home (cost: $1.5 million).

He sure doesn't spoil any of his 14 kids, ranging in age from 14 to 33. VanderSloot signs a contract with each one detailing his expectations. Starting at age 12, they all get full-time summer jobs, usually at fast-food joints, then work two hours at a job—sometimes on VanderSloot's ranch—each day after school. He has agreed to pay for college if they maintain a 3.0 average (two had to drop out). Dad doesn't pay for their weddings; instead, he offers the brides a set amount—he won't specify how much—to spend as they want. "Tell 'em that and soon they say, 'We can do without all those fancy flowers,'" he explains.

VanderSloot dabbles in politics. In 1999 he spent an undisclosed sum to sponsor billboards around the state asking rhetorically whether taxpayer money should be used to support *It's Elementary*, a public TV program exploring how four schools dealt with homosexuality. Two years later he supported radio and TV spots knocking Morgan Stanley Dean Witter's Idaho Falls office because its New York headquarters had invited former President Clinton to speak at its bond conference. One of his favorite causes is Concerned Citizens for Family Values, which in 2002 paid for ads that helped defeat a defense lawyer—"A liberal's liberal," says VanderSloot—running for state attorney general.

Most of his energy still goes into building the business. Melaleuca has pushed overseas, with 25% of revenues coming from Taiwan, Korea, Japan, Australia, New Zealand and the U.K. Now he's selling services, too, including a Sprint calling plan and a dial-up Internet connection. (He's dropping discount travel since he can't compete with the likes of Expedia.com.) The latest thing: home mortgages. Sell for Melaleuca for the next 30 years and you'll get a free burning party. F



Blubber Capitalism

WELL BEFORE THE RISE OF THE GREAT STEEL, RAILROAD AND PETROLEUM FORTUNES OF THE 19TH CENTURY, AMERICAN CAPITALISM FLOURISHED IN THE LITTLE CITY OF NEW BEDFORD. BY LAURA SAUNDERS

If The Forbes 400 had been published 150 years ago, it would have been peppered with names like Rotch, Howland, Rodman and Allen. They were all from New Bedford, Mass. With a population of 20,000 in the 1850s, it was home to perhaps the greatest concentration of wealth in America, and the money came from whale oil.

Whaling was, in retrospect, an eerily modern industry in the way it accumulated capital and spread risk. At a time when most of the nation's capital was dispersed in homes and on farms—in the form of plowshares and draft animals, for example—whaling was centralized. It was technologically innovative and organizationally sophisticated.

The American whalers' ability to come from far behind and vanquish better-established foreign competition on the high seas prefigures later U.S. global economic preeminence. U.S. whaling captains literally charted the Pacific Ocean and helped make a sphere of American influence. Despite its decline, which started around the time of the Civil War, the whaling industry left powerful legacies. Its corporate descendants include American titans like Standard Oil, General Motors, R.H. Macy and Berkshire Hathaway. To literature it gave Herman Melville's great novel *Moby-Dick*, whose facets sparkle even now. Especially now, for isn't Captain Ahab a grandiose chief exec-

AN EERILY MODERN INDUSTRY: **Whaling took physical courage and ingenuity when it came to accumulating capital and spreading risk. Captains and skilled laborers like harpooners sometimes made out well by receiving a share of net proceeds known as the "lay."**

COURTESY NEW BEDFORD WHALING MUSEUM (LEFT). JAMES L. AMOS / CORBIS

The discovery of petroleum in Titusville, Pa. in 1859 helped to kill off whaling. But many New Bedford capitalists adjusted by moving their money into other ventures, like textiles.

utive, like some we have seen recently, who puts his private agenda ahead of shareholders'?

Before oil came from the ground, it often came from whales. Consumer demand for it prompted the most dangerous big-game hunts ever known: Men in small boats sailed halfway around the world to get in even smaller boats and hurl spears in hopes of killing the largest mammals on earth.

The most prized whale product was sperm oil, which was drawn from the cavity of the whale's bulbous head. Its bright, smoke-free white light made it the fuel of choice for both streetlights and indoor lamps. But whale oil rendered from the blubber of several types of whales was also in demand for lighting and lubrication. A third sought-after product was whalebone, fibrous plates taken from the mouths of baleen whales; its strength and flexibility made it ideal for umbrellas and ladies' corsets. Ambergris, impacted feces found in the intestines of some sperm whales, was used as a fixative for perfume, and was worth more than its weight in gold.

Whaling is as old as any economic activity in the U.S. Shortly before the American Revolution, whale products surpassed fur as the colonies' leading direct export to Britain. About the same time, the merchants of Nantucket Island, a whaling center since before 1700, moved to take control of the business by vertically integrating the harvesting, processing and distribution of oil and whalebone. U.S. whalers struggled from 1775 to 1815—transoceanic wars are always bad for whaling, and this era had two major ones. But the whalemen survived to triumph during the fishery's "Golden Era," from 1820 to 1860, thanks to surging demand for oil as the national economy expanded and the Industrial Revolution took hold. In 1840 the real price of sperm oil was 25% higher than it had been in 1820, although supply was up fivefold. Throughout the Golden Era the annual rate of return for whaling seems to have averaged about 15%, although a handful of merchants did 25% or better over many decades. (Safe bonds at the time paid 6%.)

The Americans' rise was a triumph of a new idea at the time: laissez-faire cap talism. What accounts for it? Perhap most of all, Quaker culture, which para doxically provided divine sanction fo moneymaking. With conscience an commerce in fruitful alignment, Quake merchants applied their imaginations t the only business that windswept Nan tucket offered. They refined the whale boat—the small vessel dispatched fro the mother ship for the hunt—into vehicle perfectly adapted to its speci use. They also moved their factories o board their ships, as vividly detailed i the scenes of butchering and rendering i *Moby-Dick*. This, in turn, allowed more profitable three- and four-year voyages t the remote Pacific.

The most impressive display of th American whalemen's genius, howeve was not technical but financial and orga nizational. Whaling was both capit intensive and highly risky. It took $20,00 to $30,000 to launch a venture, at a tim when the average farm was worth $2,50 and the average manufacturing firm $5,000. A large sperm whale, yielding 8 barrels of oil plus other parts, could fetc $3,000 when rendered. Yet hazards wer many—industrial accidents, hosti islanders, uncharted reefs, viciou storms—and disasters common. At lea four mother ships were destroyed b enraged sperm whales, just as the *Pequo* is in Melville's tale. Some boats came bac empty of oil.

The whaling merchants responded b spreading this risk and making them selves money every step of the way. Th dealmakers, called agents, organized eac voyage as a separate venture, sold share in it and frequently bought insuranc from local firms in which they had a interest. They collected fees for variou services from gross proceeds rather tha net profits—as general partners in lim ited partnerships often do today—an could thereby break even or turn a sma profit even if the venture lost money fo shareholders.

Above all the whaling merchant shifted risk to—and reaped prof from—their labor force. To offload risk

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agents paid the captain and crew not with wages but with the "lay," a share of net proceeds. This was something like getting no salary and negotiating your stock options. The lay could work well for captains, who often made more than merchant ship captains because of the greater skills required. It could also benefit skilled labor like harpooners, and offered workers of color, like the black Daggoo and South Sea native Queequeg in *Moby-Dick*, an almost color-blind outlet that was rare at the time.

Hapless "greenhands"—young crewmen hoping to win the lottery, find adventure or escape the law—were less fortunate. These naifs were typically issued a chest of shoddy, overpriced clothes and supplies, which was charged against them, with interest, for the voyage's duration. Such expenses often took a huge bite out of pay, assuming a crewman wasn't marooned on a desert island on the voyage home to cut costs, a practice that was all too common. Some sailors came home as debtors, owing their souls, as it were, to the company store. Conditions on board many ships got so bad that a U.S. consul in Chile wrote a letter of protest to the State Department in 1858. Others pointed out that while New Bedford was a hotbed of abolitionism—Frederick Douglass lived there for a while—whaling crewmen were sometimes treated worse than slaves.

This was one of whaling's ugliest aspects. As other opportunities beckoned—like the California Gold Rush—workers looked elsewhere; crew quality and productivity deteriorated, and profits weakened. The industry's real death-knell was the discovery of petroleum in Titusville, Pa. in 1859. This was an epochal shift: A three-year whaling voyage produced at most 4,000 barrels of oil, whereas one well could pump 3,000 barrels a day. Thereafter only whalebone kept the American fishery profitable. The last old-fashioned whaler returned to New Bedford in 1924.

But the canny New Bedford merchants didn't sink with their ships. Capitalist to the core, they sensed their margins slipping a decade or more before petroleum was discovered and shifted their money out of whaling into other ventures, like textiles. By 1880 New Bedford was New England's fourth-largest producer of cloth.

At least four mother ships are known to have been destroyed by enraged sperm whales. Other hazards: industrial accidents, hostile islanders, uncharted reefs and vicious storms.

Whaling has other heirs, as well. Rowland Hussey Macy (1822-77) grew up as a Nantucket Quaker and began his career on a whaling ship. He became a retailer extraordinaire, whose radical innovations—among them clearance sales and modern advertising—show, one might argue, what Melville called the Quaker habit of "thinking untraditionally and independently." He also maintained harsh discipline in his store but was the first to allow women to hold key positions in retailing, practices that reflect whaling's rigors but also its openness to all comers. Another Macy—Josiah II—was a petroleum man whose acquisition and later timely sale of a Long Island refinery was a linchpin in Standard Oil, making him both enormously rich and an officer of the firm.

Then there is William Crapo Durant (1861-1947), the flamboyant visionary who first made General Motors a fully integrated automobile company. He came from a New Bedford family that flourished in Michigan, and grew up in the household of his maternal gran father, Henry Crapo, after his feckle father (from Boston) turned to drin Crapo the elder, a longtime New Be forder who became governor of Mich gan, ensured that his grandson was giv "proper notions of business."

Whaling's most famous daughter w Hetty Green, known as the Witch of W Street. Though a notorious eccentric, s was also the greatest female investor ever the U.S., leaving at her death in 1916 a fo tune worth $3.5 billion in today's terms. a child in New Bedford she read the fina cial pages to her father and preferred ta ging behind him on the wharves to goi to school.

There is even a line of descent fro whaling merchants to Warren Buffett. T latter half of Berkshire Hathaway's nan derives from Hathaway Manufacturing, New Bedford textile mill (no connectio to Hathaway shirts) founded with whalin money in 1888. Buffett gained control it in 1965 and used both its earnings a tax-loss carryforwards to nourish h other business before closing the mill 1985. In 2000 he sold Hathaway's 1 mi lion square feet of space for $215,000. stands today, largely used by a variety small manufacturers, a reminder of di tant ties that still bind.

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The Forbes 400

he economy's recovery may be a little shaky, but you wouldn't know it from looking at this year's Forbes 400. The mbined net worth of the nation's wealthiest climbed to $1 trillion, up $45 billion in 12 months. With a $750 million admis-on price, 9-digit fortunes are an endangered species here: 78% of the people on this year's list are billionaires.

But while the creation of wealth marches on, the preservation of it is a chancy affair. Disney boss Michael Eisner is gone from e list, capping a bad year of shareholder revolts and lackluster releases. Also gone: long-time Forbes 400 member and buyout ng Theodore Forstmann, who took large stakes in XO Communications and McLeodUSA before they went bust. Those left hind made room for 45 new names, 10 of them members of Chicago's Pritzker clan, whose intergenerational squabble resulted the carving up of the family's $17 billion hotel and manufacturing fortune. But not all the new names are family money: oogle founders Sergey Brin and Larry Page prove a od idea can still make a bundle; bond guru William ross' steady hand on volatile markets created his billion fortune; and Kenneth Hendricks shows a y can still make a buck in the unsexy trade of build-g supplies. High oil and gas prices also helped: Boone Pickens, a perennial suspect for two decades, nally makes an appearance on the list, but his $750 illion pile is dwarfed by the $4.2 billion net worth of ouston pipeline maven Daniel Duncan.

Edited by David Armstrong and Peter Newcomb

Reported by Matthew Miller, Jackie Brown, Danielle DiPenti and Adam Kemezis. Additional reporting by Kiri Blakeley, Erika Brown, Brendan Coffey, Kerry Dolan, Jonathan Fahey, Stephane Fitch, Lea Goldman, Christopher Helman, Patrick Keenan-Devlin, Daniel Kruger, Seth Lubove, Victoria Murphy, Dorothy Pomerantz, Sarah Thorpe and Nathan Vardi

Art Direction: Charles Brucaliere

Photo Editor: Stephen Aviano

Database: Cleveland Johnson

The Top Ten

1

William H. Gates III

$48 billion

Microsoft. *Medina, Wash.*

48. Married, 3 children

Microsoft pressing beyond PCs into television set-top boxes, games, cell phon "Software is where the action is," Gates proclaimed to company researchers August. Less action, though, in Microsoft stock: flat over the past year despit 14% increase in revenues and $75 billion gift to shareholders via dividends a stock buybacks. Competition from rival open source operating system, Linu stalling Microsoft's growth in the server market, but desktop dominance inta Windows installed in 94% of PCs being sold. Next version, Longhorn, should ready in 2006. Microsoft, meanwhile, pursuing online music, photos, sear software. Gates methodically diversifying wealth: sells 20 million shares ea quarter, reinvests through Cascade Investment in nontech companie including big stakes in Cox Communications, Canadian Nation Railway, Republic Services. World's biggest philanthropist also devoti $27 billion to good deeds. Bill & Melinda Gates Foundation fights infectio diseases (hepatitis B, AIDS), funds vaccine development, helps high scho *(see p. 76).*

2

Warren Buffett

$41 billion

Berkshire Hathaway. *Omaha.*

74. Widowed, 3 children

The Sage more revered than ever after Berkshire Hathaway profits doubled in 2003 thanks to goo year for insurance units Geico and General Re. Stock up 13% in the past year; briefly challeng Gates as world's richest man when shares flirted with $100,000 mark. Newspaper delivery boy fil first 1040 at age 13; claimed $35 deduction for bicycle. Studied under Benjamin Graham at Colur bia. Applied value-investing principles to build Berkshire Hathaway to $133 billion (market ca holding company: insurance, energy, carpets, jewelry, furniture, paint (Benjamin Moore), appar (Fruit of the Loom). Also big stakes in American Express, Coca-Cola, Gillette. Admits Berkshir $30 billion cash hoard is underutilized: "It's a painful condition to be in, but not as painful as doi something stupid ... [Vice Chairman] Charlie [Munger] and I detest taking even small risks Recent bets include Pier One Imports, Comcast, food distributor McLane. Bought mobile-hor maker Clayton Homes after reading autobiography by company founder. "If we fail, we will ha no excuses." Since taking control of Berkshire 39 years ago has delivered compound annual retu of 24%. Outspoken opponent of Bush tax cuts, recently courted as adviser to pols Arno Schwarzenegger and John Kerry. Critic of lax corporate governance, became target of failed car paign to vote him off Coca-Cola board. Fanatical supporters still far outnumber critics: Berkshir folksy annual meeting crowds routinely top 15,000. Next year's confab will miss the arias and pun lines served up by wife, Susan, who died in July.

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3

Paul Allen

$20 billion

Microsoft, investments. *Seattle.*

51. Single

Microsoft cofounder still a believer in "wired world," though these days jettisoning investments like TechTV in favor of biotech. Stock in cable company Charter Communications fizzled, with an assist from last year's indictment of 4 executives on charges of inflating company's results. Company has agreed to a $144 million settlement. Separately considering giving out months of free service to settle lawsuits brought by disgruntled customers. Similar misfortune with investment in troubled telecom provider RCN; recently sold stake at big loss. Still managing to have a good time elsewhere. Owns pro football's Seattle Seahawks, basketball's Portland Trail Blazers. Financial backer of SpaceShipOne first to launch private flight into suborbital space. Added Science Fiction Museum to his Experience Music Project in Seattle; includes captain's chair from the original *Star Trek*. Other captain's chair sits high atop the *Octopus*, 413-foot yacht armed with 2 helicopters and a 60-foot submarine. His Paul G. Allen Family Foundation has donated heavily to education, art and science causes. Joined buddy Bill Gates in 1975, left the company in 1983 to fight Hodgkin's disease. Has been slowly selling off Microsoft stake ever since.

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4-8

Helen R. Walton

$18 billion
Wal-Mart. *Bentonville, Ark.*
85. Widowed, 4 children

S. Robson Walton

$18 billion
Wal-Mart. *Bentonville, Ark.*
60. Divorced, 3 children

John T. Walton

$18 billion
Wal-Mart. *Bentonville, Ark.*
58. Married, 1 child

Jim C. Walton

$18 billion
Wal-Mart. *Bentonville, Ark.*
56. Married, 4 children

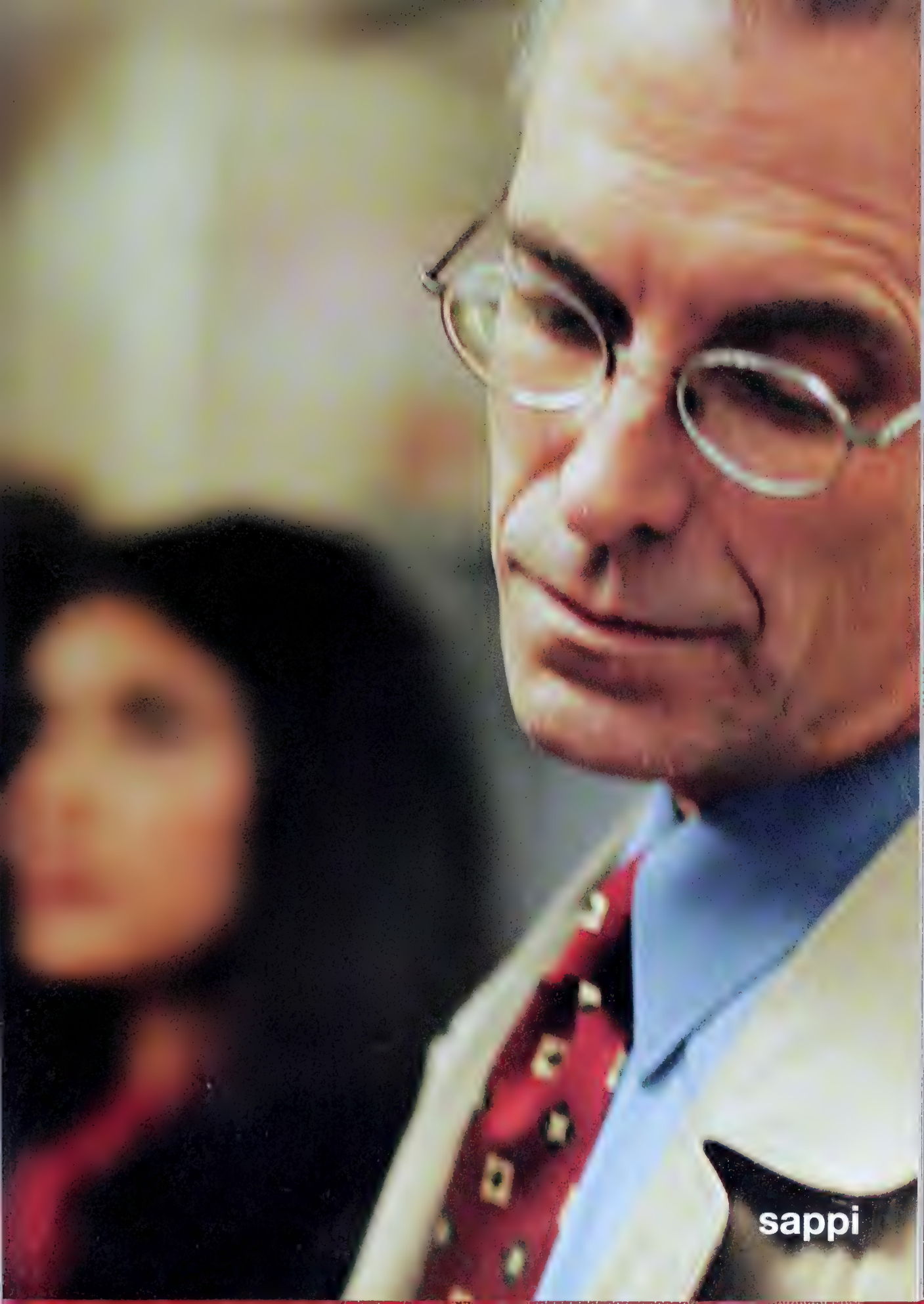
Alice L. Walton

$18 billion
Wal-Mart. *Fort Worth, Tex.*
55. Twice divorced

Widow and children of Sam Walton (d. 1992), legendary merchant who opened first discount store in Rogers, Ark. in 1962. Took Wal-Mart public 1970; explosive growth. Wal-Mart now world's largest retailer, with more than 5,000 stores. Rob is Wal-Mart chairman, John a director. Other siblings not active in company. Jim: president of Arvest, Arkansas' biggest bank. Alice: raises horses on Texas ranch. Retail giant now selling softer side after barrage of criticism over poor worker benefits, strong-arming suppliers. Family donates via Walton Family Foundation.

S. Robson Walton

Helen R. Walton John T. Walton Jim C. Walton Alice L. Walton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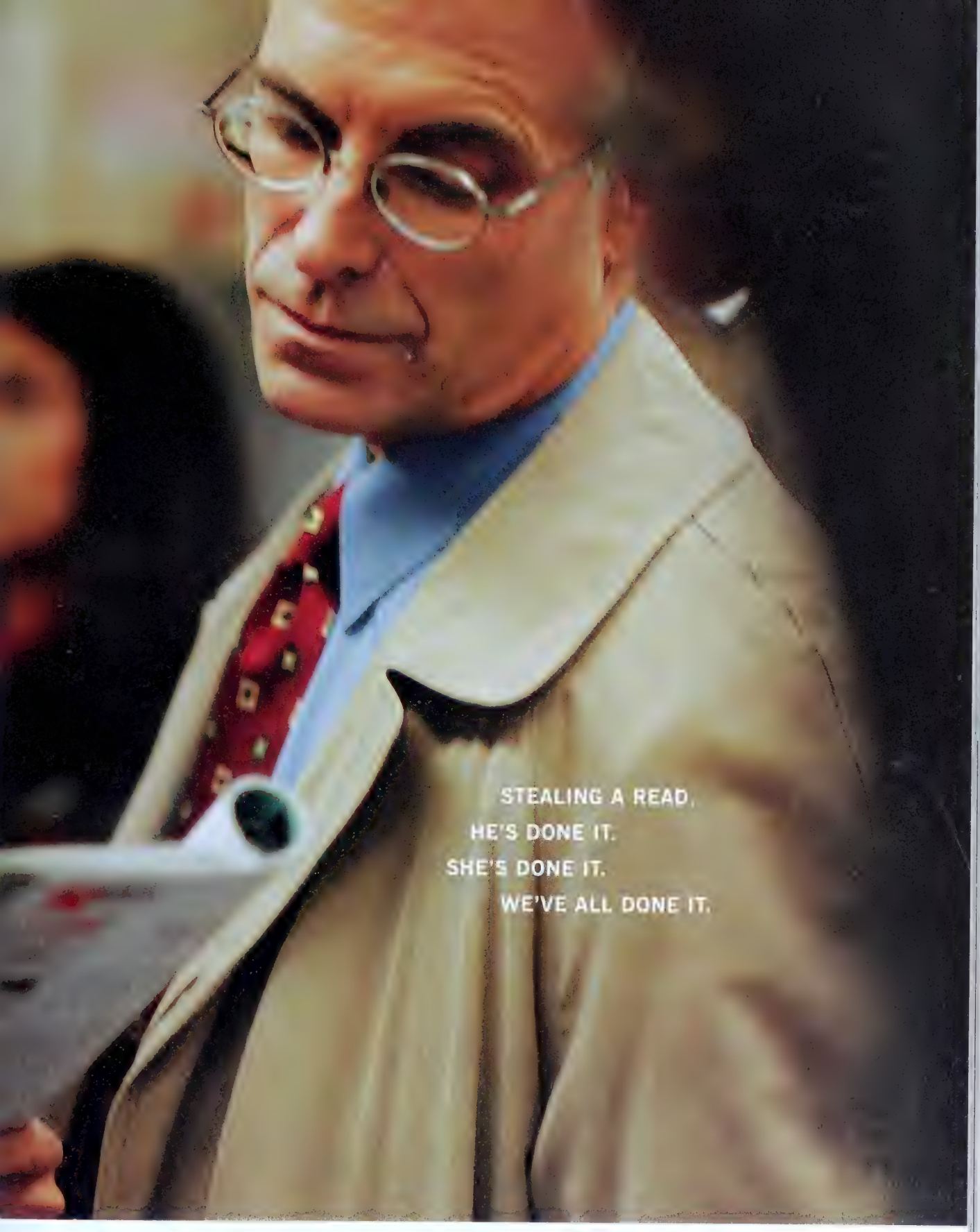

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9

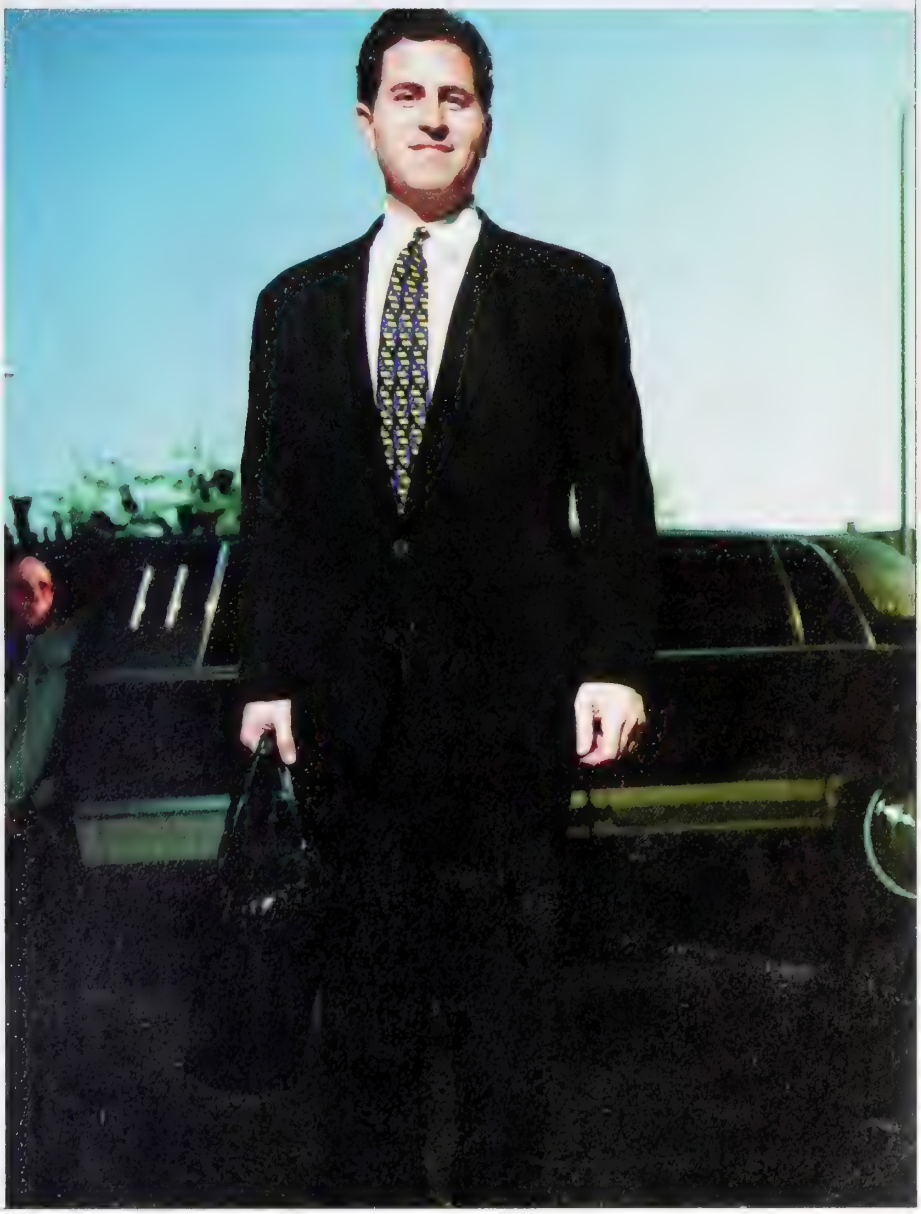
Michael Dell

$14.2 billion

Dell. *Austin, Tex.*

39. Married, 2 children

Founder of world's biggest PC maker stepped down as chief executive in July, but at a mere 39, he's not headed for the rocking chair. Remains chairman, works closely with successor Kevin Rollins to push company toward goal of $60 billion in sales by 2007. Getting close: second-quarter revenues were $11.7 billion, 20% higher than last year. As a 19-year-old college kid started company from his University of Texas dorm room. Grew fast with low cost, low R&D, direct-sales model. Now beginning to compete in media software, printers, other gizmos. Diversifying wealth by selling stock, reinvesting through MSD Capital in other ventures, including 377-room luxury Four Seasons Resort Maui at Wailea, Hawaii. Other investments: stakes in International House of Pancakes, Dollar Thrifty Automotive Group, Tyler Technologies, Indiana restaurant chain Steak n Shake.



10

Lawrence Ellison

$13.7 billion

Oracle. *Silicon Valley, Calif.*

60. Married, thrice divorced; 2 children

Latest tech slump shaved $4.3 billion off his worth, but Larry still cracks wise, telling an in July: "This *is* the tech recovery. Enjoy it." Brash software executive enjoying long victory when a judge ruled in September that Oracle could proceed with ho $7.7 billion bid for PeopleSoft. But deal far from done. PeopleSoft—founded by f Forbes 400 member David Duffield—could still trigger poison pill, not to mention Euro regulatory hurdles. Chicago native cofounded database software firm in 1977, took p in 1986, one day before Microsoft; nipping at rival's heels ever since. Touts Darwinian of software industry, decreeing that all but the largest players are doomed. Just as com tive on the high seas: finished behind in the most recent America's Cup; his BMW O Racing team looks to be in fighting trim leading up to the 2007 race. Visionary very atta to his own vision of things: gave exclusive access to biographer in exchange for being all to pepper the book with footnotes giving his own version of events.

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Tech Titans

THANKS TO GOOGLE, TECH STOCKS ARE BACK IN VOGUE. BUT IF IT WEREN'T FOR THE CODES AND COMPUTERS CREATED BY THESE ENTREPRENEURS, "GOOGLE" WOULDN'T BE A VERB.

Steven Ballmer

$12.6 billion

Microsoft. *Redmond, Wash.*

48. Married, 2 children

"I'm confident we have some of the greatest dollar growth prospects in front of us of any company in the world, full stop, period—without question, it's there." So said Microsoft's chief executive and boisterous booster in July. Cites corporate servers and America's living room, where Xbox commands a growing share of U.S. gaming market. Yet Microsoft is decidedly more mature now, with recent $32 billion cash dividend, cost-cutting and settling of old feuds with Sun Microsystems, Apple Computer, Time Warner and dozens of federal and state trustbusters. Native of Detroit quit Stanford M.B.A. program to join Harvard classmate (and dropout) Bill Gates in 1980. At the helm of Microsoft since 1998.

Gordon Moore

$3.8 billion

Intel. *Woodside, Calif.*

75. Married, 2 children

Caltech grad took job researching weapons propulsion at Johns Hopkins; stumbled upon the integrated circuit and became known for Moore's Law (by which the number of transistors on a microchip doubles every 18 months). Founded Intel in 1968 with Robert Noyce (d. 1990) and $2.5 million investment led by venture capitalist Arthur Rock *(see)*. Intel had meteoric growth until tech slump; thriving again in servers, wireless equipment. Moore would be worth twice as much, but in 2000 he donated half his Intel stake to charity—environmental causes and education, including $300 million to his alma mater.

James Goodnight

$3.2 billion

SAS Institute. *Cary, N.C.*

61. Married, 3 children

John Sall

$1.5 billion

SAS Institute. *Cary, N.C.*

55. Married, 4 children

Owners of SAS Institute, world's largest privately held software company (sales: $1.3 billion). Designs advanced statistical-modeling software for pharmaceutical giants such as Merck and Eli Lilly, now trying to attract banks and financial institutions with crunching and anti-money-laundering ware. Techie employees kept happy lucrative perks like child-care cen Olympic-size swimming pool, 35-h workweek, free soda and candy.

Steve Jobs

$2.6 billion

Apple Computer. *Palo Alto, Calif.*

49. Married, 4 children

Gates is far richer, but Jobs is way cooler the kids. For that he can thank two dec of innovative design and catchy marke And now iPod, portable music player (3 lion units sold since 2001), helped r Apple's iTunes Music Store the dominan for downloading music: 125 million do loads, accounting for 70% of all (legal) I net music sales. Result: Apple stock up 70 far this year, but formidable rivalry lo from Wal-Mart's and Microsoft's sepa competing services and the Mac struggl retain minor market share. Luckily for much of his wealth lies elsewhere, in d animation shop Pixar *(Toy Story, Fin Nemo)*. The hot studio still hasn't found a home after severing its relationship with

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h companies to stay in
ate hands, and—with $13
ion in sales—the largest

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ney earlier this year, culminating a feud between Jobs and alpha-mouse Michael Eisner.

Craig McCaw

$2 billion
McCaw Cellular. *Seattle.*
55. Married, 3 children

Bruce McCaw

$850 million
McCaw Cellular. *Seattle.*
57. Married, 2 children

John McCaw Jr.

$810 million
McCaw Cellular. *Seattle.*
53. Married, 4 children

Surviving sons of cable pioneer John Elroy McCaw (youngest son, Keith, died 2002). Sons took over business after father's death in 1969; Craig turned frail cable concern into cellular phone giant. Sold to AT&T for $11.5 billion in 1993. Invested proceeds in Nextel, other tech investments, but got hit hard in telecom crash. Still in the game with satellite company ICO, cellular outfit Microcell. Other brothers less active in business but well known through philanthropy (recent donation built new Seattle opera house named for mother) and sports (John owns NHL's Vancouver Canucks).

Henry Nicholas III

$1.6 billion
Broadcom. *Laguna Hills, Calif.*
45. Married, 3 children

Henry Samueli

$1.5 billion
Broadcom. *Newport Beach, Calif.*
50. Married, 3 children

Partners met while working at TRW's chip design division. Founded Broadcom in 1991 out of spare bedroom in Nicholas' house to make high-speed telecom chips. Took public 1998. Nicholas was a hard-charging workhorse until he quit abruptly in 2003 to spend time with his family. He recently donated $10 million to his children's school in California. Samueli serves as chief engineer, chairman of Broadcom.

Eric Schmidt

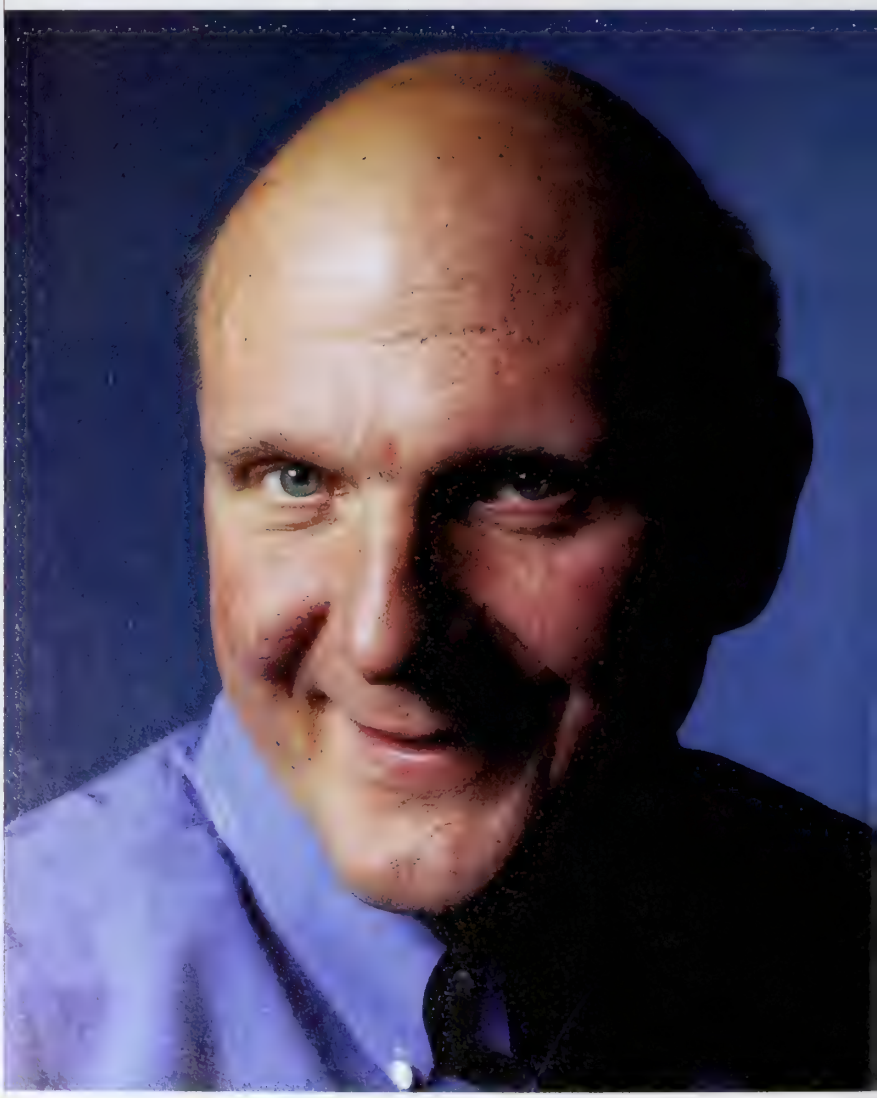
$1.5 billion
NEW **Google.** *Atherton, Calif.*
49. Married, 2 children

Electrical engineering degree from Princeton; doctorate from the University of California at Berkeley. Conducted computer-science research at famed Bell Labs and Xerox Palo Alto Research Center (PARC). Jumped to pre-IPO Sun Microsystems in 1983; led development of its Java code technology. Left to run Novell, fled flailing software outfit for fledgling Internet search engine Google; named chief executive August 2001. Became a billionaire after August Google IPO. Google grown-up owns 14 million shares.

John Morgridge

$1.4 billion
Cisco Systems. *Portola Valley, Calif.*
71. Married, 3 children (1 deceased)

Former Honeywell exec became chief data-routing powerhouse Cisco in 198 Took public in 1990, increased sales hu dredfold by focusing on the Intern briefly the world's most valuable compa Current market cap: $132 billion, do 76% since 2000 peak. Stepped down CEO in 1995, still maintains active role chairman. Donates to technology edu tion, alma maters Wisconsin and Stanfo supporter of John Kerry's run for pre dency. Avid cyclist once bicycled across U.S. with wife, Tashia.



STEVE BALLMER hopes a $32 billion dividend will keep Microsoft investors happy.

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—Christoph Ganswindt, CIO, Lufthansa Passenger Airline

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Theodore Waitt

$1.4 billion

Gateway. *San Diego.*

41. Married, 4 children

Extreme makeover time for head of long-struggling Gateway: handed over CEO spot to Emachines' Wayne Inouye, closed all 188 Gateway stores to strike better deals with retailers like Best Buy. High-tech rebel even chopped off ponytail and quit smoking. Started company with brother, Norm *(see)*, in 1985 from Iowa farmhouse. Direct marketer known for made-to-order computers shipped in Holstein-spotted boxes lags behind Dell and Hewlett-Packard. Serves as chairman of the "Founding Fathers" campaign to end domestic violence.

Thomas Siebel

$1.2 billion

Siebel Systems. *San Mateo, Calif.*

51. Married, 4 children

Former Oracle salesman and Larry Ellison *(see)* protégé quit in 1990 after developing internal sales automation software. Launched customer management software company Siebel Systems in 1993; IPO 1996. Acquired Ineto Services and Eontec earlier this year. Company faces SEC lawsuit for allegedly disclosing nonpublic information to some investors. Founder stepped down as CEO in May, remains chairman. Established Siebel Scholars Program, which awards grants to outstanding graduate students in business and computer science.

Can you hear me now? Qualcomm founder **IRWIN JACOBS** hopes new customers will give his cell phone company another boost.

Richard Egan

$1.1 billion

EMC Corp. *Hopkinton, Mass.*

68. Married, 5 children

After stint as Marine helicopter pilot during the Korean War, worked at Lockheed, Honeywell, Intel. Cofounded EMC, now Massachusetts' largest high-tech company, in 1979 as supplier of add-on memory boards, took it public 10 years later. Sold most of his shares during the 1990s tech boom. Resigned as chairman in 2001 but still on board. Served as U.S. ambassador to Ireland under President George W. Bush. Raised over $500,000 for Republican Party in recent years; agreed to penalty for overstepping contribution limit.

David Duffield

$1.1 billion

PeopleSoft. *Incline Village, Nev.*

64. Divorced, remarried; 9 children

Cofounder of PeopleSoft, which makes back-office software. Oracle's recent court victory in takeover antitrust case bumped up Duffield's holdings, but PeopleSoft's future as stand-alone company appears to be in jeopardy. Handed over day-to-day control to Oracle sales vet Craig Conway in 1999; remains chairman. Main diversion: overseeing the $150 million Maddie's Fund (named after his late miniature schnauzer) to help make America a "no-kill" zone for unwanted pets.

Scott Cook

$1.1 billion

Intuit. *Woodside, Calif.*

52. Married, 3 children

Former Procter & Gamble product manager created Quicken's personal finance software in 1983 to help wife balance checkbook. Shipped first commercial copy 1 year later. Today Intuit software products include tax preparation, small-business bookkeeping. Avid cyclist funds business school product management program at University Wisconsin, his wife's alma mater.

BY THE NUMBERS

The average net worth of The Forbes 400:

$2.5 billion

Charles Simonyi

$1 billion

Microsoft. *Medina, Wash.*

56. Single

Lured to Microsoft in 1981 after work Xerox's famed PARC lab, became ch architect and developer of Word, Ex applications. With small tech outfit Inte tional Software, developing new tools create software: "The biggest damn opp tunity in software, and software is still t biggest damn opportunity in the econom For now, customers not coming as quic as predicted. Budapest native, came to t U.S. at age 18, earned bachelor's degree fr Berkeley, computer science Ph.D. from Sta ford. Through $50 million Charles Simo Fund for Arts and Sciences gave to Seat Public Library and Seattle Symphony.

Andreas von Bechtolsheim

$1 billion

NEW **Google.** *Palo Alto, Calif.*

48. Single

"Andy" is one of the smartest—yet least-w known—denizens of the digital world. O recent big win: He wrote Google's Sergey B

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and Larry Page *(see both)* a $100,000 check in 1998 before they had even incorporated the company. Six years later that investment is worth $400 million, launching him into The Forbes 400. Has been a high-tech hotshot in Silicon Valley for 2 decades. Born in Germany, came to U.S. for master's in electrical engineering from Carnegie Mellon University. While working toward a Ph.D. at Stanford, he invented one of the first network workstations. With help from Vinod Khosla and Scott McNealy, turned underlying programming into Sun's Solaris operating system. Left to start network switch outfit Granite Systems; sold it to Cisco in 1996 for $220 million in stock. Left Cisco last December to run Kealia, a computer system design company that he sold to Sun 4 months later for $93 million in Sun stock. Now back with buddy McNealy as Sun's chief architect. Also investor in chip-designing-software maker Magma Design Automation. Once lived in a big house in Woodside, Calif. with large staff; now lives alone in small Palo Alto apartment.

Min H. Kao

$950 million

Navigation equipment.

Mission Hills, Kans.

55. Married, 2 children

Met partner Gary Burrell while working as engineers at AlliedSignal. Struck out on their own 1989. Founded global positioning system equipment manufacturer Garmin (first 3 letters of each name). Manufactured digital navigation products and communication devices for boats, planes, hikers. Took public in 2000. Burrell recently retired; Kao serves as chairman and CEO.

Irwin M. Jacobs

$930 million

Qualcomm. *La Jolla, Calif.*

70. Married, 4 children

Retired UC San Diego engineering professor founded Qualcomm in 1985. Won over telecom industry with his patented new wireless protocol, called code division multiple access technology (CDMA). Highflier on the Big Board until telecom bust, but lately stock is up on mobile phone sales, new customers in India, China. Recently pledged $100 million to San Diego Symphony.

Software guru **CHARLES SIMONYI** was Microsoft's first trophy hire. Now he's on his own.

James Kim

$880 million

Microchips. *Bryn Mawr, Pa.*

68. Married, 3 children

Korean immigrant came to U.S. to start American marketing arm of father's small Korean chipmaker Anam Semiconductor. Stateside company Amkor Technology eventually became bigger, bought many of Anam's factories during Asian financial crisis. Stock lately a roller coaster: lost 90% of its value in 2002, regained some in 2003; this year lost 80%. With family owns big stake in Electronics Boutique, retail chain started by wife, Agnes.

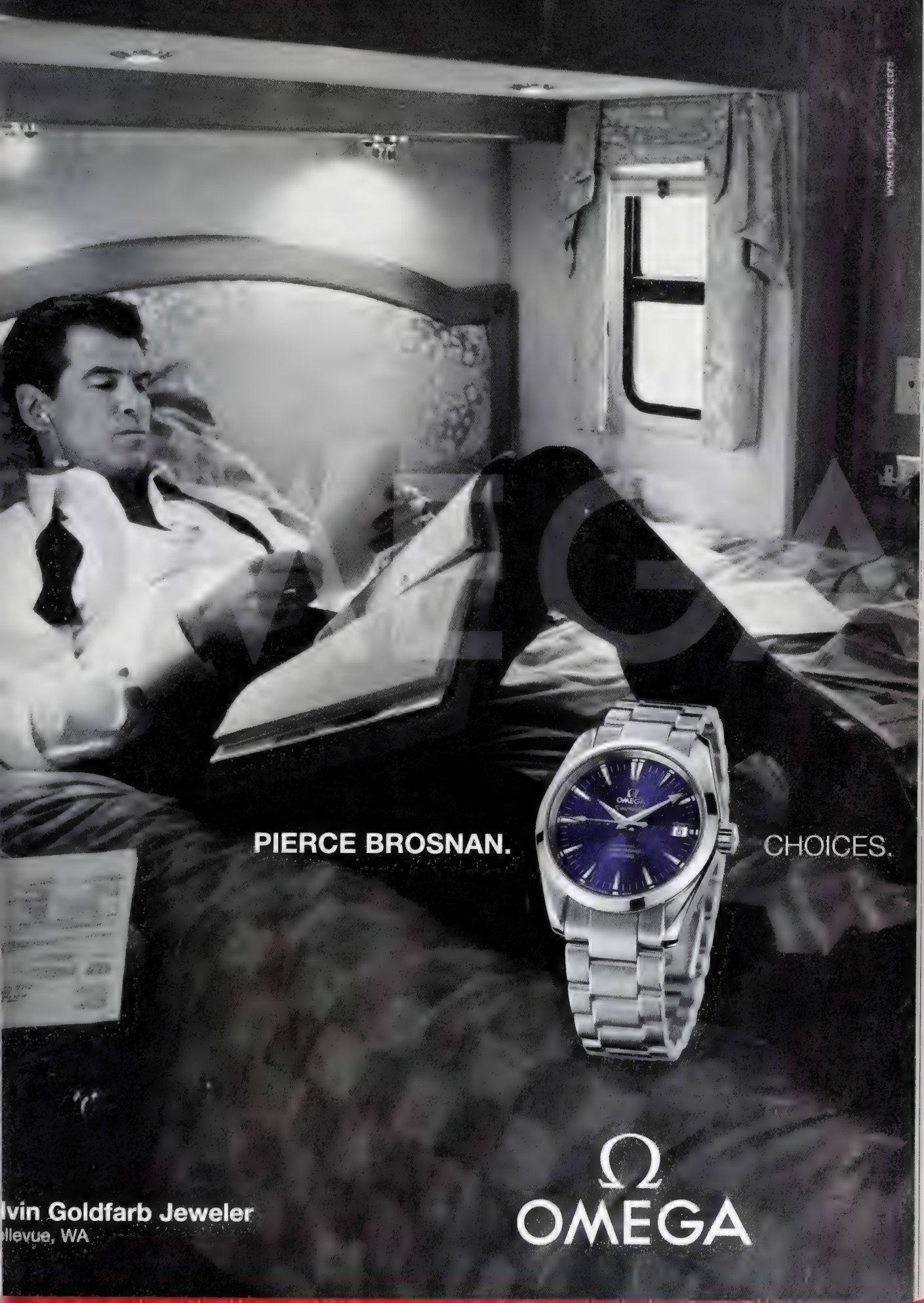
Todd Wagner

$780 million

Broadcast.com. *Dallas.*

44. Single

Bored lawyer changed careers, made te fortune with partner Mark Cuban *(see)*, se ing Broadcast.com to Yahoo for $5.7 billi in 1999. Partners going Hollywood wi 2929 Entertainment: Magnolia Pictu *(Capturing the Friedmans)*, Rysher Ent tainment (*Hogan's Heroes* reruns and dist bution rights to *Sex and the City*) and hig definition television network HDNet. L year bought art house chain Landma Theaters for undisclosed amount. Al develops nonprofit afterschool programs inner-city children.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Spotlights

ENTERTAINMENT REMAINS ONE OF AMERICA'S LARGEST EXPORTS AND A MAJOR SOURCE OF WEALTH OF THE FORBES 400. THESE MOGULS CONTROL THE PIPES AND PRODUCTION SHOPS THAT BRING OPRAH TO OSLO AND KEEP THEIR OWN STARS IN THE LIMELIGHT.

Anne Cox Chambers

$11.3 billion

Cox Enterprises. *Atlanta.*

84. Twice divorced, 3 children

Barbara Cox Anthony

$11.3 billion

Cox Enterprises. *Honolulu.*

81. Married, 2 children

Two daughters of James M. Cox (d. 1957), a high school dropout who worked as a reporter and congressional secretary before buying *Dayton Evening News* for $26,000 in 1898. Built media empire: newspapers (17 daily metros, including flagship *Atlanta Journal-Constitution*), 15 TV stations, 78 radio stations, cable systems. Anne: former ambassador to Belgium under Carter. Barbara's son, James Cox Kennedy, oversees business.

John Kluge

$11 billion

Metromedia. *Palm Beach, Fla.*

90. Thrice divorced, remarried; 3 children

German immigrant, onetime richest man in America, amassed fortune buying and selling broadcast, cellular properties. Tech crash drove his Metromedia Fiber Network into bankruptcy; emerged last year as AboveNet with equity partners Craig McCaw *(see)* and Franklin Mutual Funds. Oversees large collection of eclectic investments: restaurants (Ponderosa, Bonanza, Steak and Ale chains), medical and light technology, gourmet beef. Collects aboriginal art; gives to education, $60 million to the Library of Congress. Celebrated 90th birthday in Bavaria, Germany.

Sumner Redstone

$8.1 billion

Viacom. *Beverly Hills, Calif.*

81. Divorced, remarried; 2 children

Son of drive-in-theater owner, took over Dad's business in 1954, built National Amusements into 1,400-screen chain. Today Viacom is in movies (Paramount), cable channels (MTV, VH-1, Nickelodeon, BET), network television (CBS, UPN), radio (Infinity Broadcasting), books (Simon & Schuster). Bought Blockbuster video chain in 1993 from Wayne Huizenga *(see)*; took public, now plans to split off controlling stake. Also dumped Viacom president Mel Karmazin in May after 4 years of chronic head-butting. Owns stakes in videogame developer Midway Games, WMS Industries. Boston native splits his time between New York and the West Coast with his second wife, Paula.

Charles Ergen

$7.3 billion

EchoStar. *Denver.*

51. Married, 5 children

Former Frito-Lay financial analyst started selling C-band satellite dishes 1980, expanded into broadcasting. Today EchoStar's 9 satellites broadcast hundreds channels to 10 million subscribers. Sales: $5.7 billion. Attempt to buy rival DirecTV stymied by regulators; $1.8 billion bid for bankrupt Loral also nixed. Flexing muscles anyway: briefly pulled Viacom channels (MTV, Nickelodeon) off the air during recent carriage negotiations. New deal with telco SBC will bundle satellite service with telephone bill. Avid hiker recently led 20 interns on climb up 14,433-foot Mount Elbert, Colorado's highest peak.

Samuel I. Newhouse Jr.

$7 billion

Publishing. *New York City.*

76. Divorced, remarried; 3 children

Donald Newhouse

$7 billion

Publishing. *Somerset County, N.J.*

74. Married, 3 children

Brothers in 1979 took over Advance Publica-

DAVID GEFFEN will give away any money he makes from his DreamWorks studio; he'll still have plenty of cash left for art.

Unlike other media moguls', **BARRY DILLER**'s ardor for the Internet hasn't diminished.

tions, newspaper and magazine company started by father, Sam Sr., in 1922. Beat IRS in huge estate tax battle after father's death in 1979. "Si" oversees the biggest part of Newhouse media empire: Condé Nast *(Vogue, Vanity Fair, Glamour)*, Fairchild *(Details, Women's Wear Daily, W)*, Bright House (cable system with 2.1 million subscribers), big stake in Discovery Communications (The Learning Channel). Also CondéNet: operator of Web sites Epicurious (food), Concierge (travel). Don runs newspapers (Cleveland *Plain Dealer*, Newark's *Star-Ledger*). Company sold Random House book division for $1.4 billion, bought *Wired* magazine for $80 million at height of tech boom. After successful launch of *Lucky*, women's shopping title, rolled out *Cargo*, a counterpart for men.

Rupert Murdoch

$6.9 billion

News Corp. *Los Angeles, New York City.*
73. Twice divorced, remarried; 6 children

Liberals decry his Fox News Channel as anything but "fair and balanced," but viewers love it anyway: cable news channel (home to *Forbes on Fox*) has lately drawn 78% more viewers than rival CNN. Acquired 34% stake in and de facto control of DirecTV, largest American satellite broadcaster, now at 13 million homes and aiming to grow to 20 million subscribers by 2010. Native Australian inherited one Adelaide newspaper at age 23. Turned News Corp. into media behemoth through steady diet of acquisitions and new ventures: U.K.'s *Sun*, *New York Post*, Fox television network. Some wags see a succession struggle involving his 2 sons, Lachlan and James, and daughter Elisabeth, but Lachlan, now Deputy Chief Operating Officer, has the edge.

Michael Bloomberg

$5 billion

Bloomberg L.P. *New York City.*
62. Divorced, 2 children

How'm I doing? New York City's Mayor Mike didn't coin the question, but the answer is "Just fine." Bloomberg L.P.'s growth stalled with the markets, but with stocks in go-go mode in 2003, demand for his eponymous company's data terminals rose 5%. Most creative use of market forces by a politician: gambit to keep city calm during Republican convention was to offer protesters discounts at NYC shopping, dining establishments in exchange for not rioting.

David Geffen

$4.4 billion

Entertainment. *Malibu, Calif.*
61. Single

Music impresario set to take public the animation unit of DreamWorks SKG, the boutique film studio he cofounded with Steven Spielberg and Jeffrey Katzenberg *(see both)*. Timing couldn't be better: company's *Shrek 2* was this summer's blockbuster, making $860 million at the box office. No matter—Geffen says he will hand all of his take to charity. Contemporary art collector (Jackson Pollock, Jasper Johns, Willem de Kooning) lately slowing down: "What good is art if you don't have the walls to hang it on?"

George Lucas

$3 billion

Star Wars. *Marin County, Calif.*
60. Divorced, 3 children

Star Wars mastermind putting finishing touches on the final installment of his 6-part space epic—*Episode III: The Revenge of the Sith*, set for release in spring 2005. Also runs special-effects shop Industrial Light & Magic (Harry Potter movies, *Master and Commander*). Possible future projects: sequels to *Jurassic Park, Indiana Jones*.

PERRY ELLIS

. Jerrold Perenchio

2.7 billion

nivision. *Bel Air, Calif.*

3. Married, 3 children

CLA grad became talent agent for MCA. reated Embassy Communications with orman Lear *(All in the Family)*; sold proamming interests to Coca-Cola for $485 illion. With partners spent $550 million r Spanish-language television broadcaster nivision in 1992; last year paid $3.5 billion r radio giant Hispanic Broadcasting. erry" is a big donor to both parties.

teven Spielberg

2.6 billion

ovies. *Pacific Palisades, Calif.*

7. Divorced, remarried; 7 children

ollywood's most revered director/producer, so one of its richest. And getting richer: reamWorks' planned public offering of its t animation unit set for this fall. With David effen, Jeffrey Katzenberg *(see both)*, launched reamWorks with grand plans for multifaced entertainment giant, but subsequently aled back. Spielberg put up $33 million for % of upstart studio in 1994. "My head's not the clouds, but I think I've gotten too much edit for being an astute businessman." Arina-raised movie buff rejected by top film hools, then dropped out of Cal State Long ach. Broke into entertainment as a TV dictor for Universal, directed his first movie, *uel*, in 1971, but it only reached TV screens the U.S. His third film, *Jaws* (1975), set the mplate for the modern blockbuster. Built uch of his fortune by directing or producing: *iders of the Lost Ark, E.T., Jurassic Park, hindler's List, Men in Black*, among others. xt up: reteaming with Tom Cruise (they did *inority Report*) for remake of H.G. Wells' *ar of the Worlds.*

laim Saban

.2 billion

levision. *Beverly Hills, Calif.*

. Divorced, remarried; 4 children

ade first fortune with unlikely Japanese idie hit *Mighty Morphin Power Rangers.* ld to Rupert Murdoch in exchange for half of Fox Family Network. That channel later was sold to Disney for $5 billion. His take: $1.7 billion. Reinvested some of the proceeds to buy German broadcaster ProSiebenSat.1 from bankrupt Kirch Media.

Amos Hostetter Jr.

$2.1 billion

Continental Cablevision. *Boston.*

67. Married, 3 children

Stockbroker's son started cable company with frat brother in 1963. Partner left 1981; Hostetter turned Continental Cablevision into nation's largest privately held cable concern. Sold to US West for nearly $11 billion in 1996, under condition that Continental stay based in Boston. US West promptly moved cable operations (renamed MediaOne) to Denver. So Hostetter, furious, orchestrated sale of MediaOne to AT&T (whose cable systems were later sold to Comcast). Resigned from Ma Bell board last summer; oversees investments through Boston-based Pilot House.

Leonore Annenberg

$2 billion

Inheritance. *Wynnewood, Pa.*

86. Divorced, widowed; 2 children

Second wife, widow of publisher Walter Annenberg *(Philadelphia Inquirer, TV Guide, Seventeen)*. Received bulk of estimated $4 billion estate after Walter's death in 2002 (Annenberg Foundation, Metropolitan Museum of Art got the rest). Leonore: Stanford grad served as U.S. Chief of Protocol from 1981 to 1982 under Ronald Reagan. Chairs the Annenberg Foundation, dabbles at golf on the family's private course in Rancho Mirage, Calif.

Patrick McGovern

$2 billion

IDG. *Hollis, N.H.*

67. Divorced, remarried; 4 children

Earned MIT scholarship after designing unbeatable tic-tac-toe computer program. Worked on college computer magazine.

New York City Mayor **MICHAEL BLOOMBERG** passed on the job's housing perks.

Founded International Data Group 1964 to provide market research to computer makers. Launched *Computerworld* in 1967; later, *PC World*, *Macworld*. Added instructional books via popular *Dummies* series, trade shows. Today IDG publishes 300 magazines and newspapers in 85 countries, 400 technology-related Web sites. Big inroads in Asia: plans to invest $100 million in Vietnam, $200 million in India over the next 10 years.

William Randolph Hearst III

$1.9 billion

Hearst Corp. *San Francisco.*

55. Married, 3 children

George R. Hearst Jr.

$1.8 billion

Hearst Corp. *Los Angeles.*

77. Widowed, divorced, remarried; 4 children

Phoebe Hearst Cooke

$1.8 billion

Hearst Corp. *San Francisco.*

77. Divorced, remarried; 1 child

David Hearst Jr.

$1.8 billion

Hearst Corp. *Los Angeles.*

59. Single

Austin Hearst

$1.8 billion

Hearst Corp. *New York City.*

52. Twice divorced, 3 children

Five grandchildren of publishing legend William Randolph Hearst, who assumed control of *San Francisco Examiner* from his father. Built what once was one of nation's largest newspaper chains via sensational "yellow" journalism. Today the empire owns newspapers (flagship: *San Francisco Chronicle*), magazines (*Cosmopolitan, Esquire, Good Housekeeping*), cable channels (stakes in ESPN, A&E, Lifetime), TV and radio stations. Also real estate. Recent state approval will allow some development of prime parcel along California coast. William III a partner at Silicon Valley venture capital shop Kleiner Perkins.

Ted Turner

$1.9 billion

Time Warner. *Lamont, Fla.*

65. Thrice divorced; 5 children

Cable news pioneer remains Time Warner's largest individual shareholder despite dumping nearly 90 million shares in past 2 years; has 40 million left. Operates own restaurant chain, Ted's Montana Grill, in 9 states. Signature dish: bison burgers. Each location replicates saloons of the Wild West. Last year his Nuclear Threat Initiative foundation launched debate series to educate the public about the threat of nuclear, chemical and biological weapons. New production company, Ted Turner P tures, introduced Civil War movie *Go and Generals*. Spoke out against war recent interview with Charlie Rose. Arde conservationist, America's largest priva landowner: 1.8 million acres in 10 state

John Malone

$1.7 billion

Cable television. *Parker, Colo.*

63. Married, 2 children

A year after bowing out of the Vivendi bi ding war, cable's once and future king s keeps the media world guessing. He su prised Rupert Murdoch with acquisition

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What will you remember?

FOUR SEASONS

Hotels and Resorts

[illegible] Toronto Paris Washington, D.C. Houston New Y[illegible]

voting stake in News Corp.; spun off ernational cable businesses. But Wall eet is unimpressed: Liberty Media stock vn 48% in past year. Former engineer ame right-hand man to TCI cable nder Bob Magness (d. 1996), sold TCI Ma Bell in 1999 for $54 billion. Has kept fingers in all things media ever since, ed by his trademark, elaborately com- x financial maneuvering.

ank Batten Sr.

.3 billion
ndmark Communications.
ginia Beach, Va.
Married, 3 children

le Samuel Slover arrived in Virginia 1900. s offered 50% of *Newport News* (now *Vir-an-Pilot*) if he halted paper's losses within ar; succeeded. Raised nephew Frank, who led Harvard M.B.A., became publisher at 27. Built Landmark Communications: spapers (7 daily metros), cable (Weather nnel), TV stations. His son Frank Jr. runs business; Frank Sr. active in philanthropy, ch to education: $32 million to Harvard iness School, $60 million to Darden duate School of Business Administration irginia.

harles Dolan

3 billion
levision Systems. *Oyster Bay, N.Y.*
Married, 6 children

le entrepreneur got start filming sports nts, selling footage to television stations. nded Teleguide in 1960 to wire New k City hotel rooms with cable televi-. Founded HBO 1971; traded his stake is partner, the old Time Inc., in 1973 xchange for a nascent New York cable em that provided residential service to 0 customers. Cablevision now the na- 's 6th-largest cable operator, with 3 ion subscribers, all in N.Y. area. Owns basketball's New York Knicks, hockey's York Rangers, Madison Square Gar- . Son, James, runs the company; uck" assembling Rainbow Media En- rises, new venture that includes satellite service VOOM, Rainbow National Channels (AMC, Independent Film Channel, WE: Women's Entertainment, Clearview Cinemas).

Barry Diller

$1.3 billion
InterActiveCorp. *New York City.*
62. Married

With pal David Geffen *(see)*, cut teeth in fabled mailroom of Hollywood's William Morris Agency. A media darling ever since: in the movie business (Paramount, under Michael Eisner), in television (ABC, Fox, USA Networks), now the Internet. Claims he became an e-commerce acolyte after watching Diane von Furstenberg sell clothes online; later married her. Now runs InterActiveCorp, growing blend of Internet sites: travel (Expedia.com, Hotels.com), personal (LendingTree.com, Match.com), entertainment (Ticketmaster.com). Shrewd negotiator, personally reaped $275 million when NBC bought his old TV assets from Vivendi.

Stanley S. Hubbard

$1.2 billion
DirecTV. *St. Mary's Point, Minn.*
71. Married, 5 children

Father founded first U.S. commercial airline, but it never got off the ground. Went into radio, built one of Minneapolis' first stations (WAMD—"Where All Minneapolis Dances"); added television in 1948. Stanley took over Hubbard Broadcasting in 1981, pioneered satellite television news gathering. Took United States Satellite Broadcasting public 1996. Sold to Hughes/DirecTV in 1999 for $1.3 billion. Still owns 13 television, 4 radio stations. Children taking over the day-to-day control: "I'm the chairman and chief cheerleader."

Robert Naify

$1.2 billion
Movie theaters.
San Francisco.
82. Widowed, 6 children

Son of Lebanese immigrant father, who opened Atlantic City movie theater in 1912.

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NEY BOSTON TOKYO LONDON HAMPS

Built more theaters, invested in cable television. Robert and brother Marshall (d. 2000) took over company, sold to Telecommunications Inc. in 1986. Ran postproduction company Todd-AO *(Collateral)*, sold to Liberty Media in 2000.

Alan Gerry

$1.2 billion

Cablevision Industries.

Liberty, N.Y.

75. Divorced, remarried; 3 children

High school dropout had plenty of time to watch TV, didn't like poor reception. Built own antenna tower with $1,500. Later built cable franchises. Sold Cablevision Industries to Time Warner in 1996 for $2.8 billion. Still owns big Time Warner stake; manages other investments via Granite Associates. In July broke ground on Bethel Woods project: music museum and amphitheater built on Max Yasgur's Woodstock concert site. Grows corn and berries on 160-acre farm in Liberty.

David C. Copley

$1.2 billion

NEW **Copley Press.** *La Jolla, Calif.*

52. Single

Inherited 99-year-old newspaper chain (including flagship *San Diego Union Tribune*) from mother, Helen K. Copley, who died in August. Copley Press chief executive since 1997; vows to stay independent. Attended Menlo College. Gives to San Diego's modern art scene.

Lowry Mays

$1.1 billion

Clear Channel. *San Antonio, Tex.*

69. Married, 4 children

Harvard M.B.A. bought first radio station in 1972 with fellow Texan Billy Joe (Red) McCombs *(see)*. Took public in 1984 as Clear Channel Communications; became nation's largest radio operator with 1,270 stations. Added TV, billboards, concert venues, booking agency. Mays recovering from brain surgery; son Mark currently in charge.

Herbert Siegel

$1.1 billion

Television. New York City.

76. Married; 2 children

Made name in the early 1980s as white knight investor in Warner Communications. Made big profit after merger with Time Inc., formed United Paramount Network with Viacom. Sold to Rupert Murdoch's News Corp. for $5.3 billion in 2001.

Edmund Ansin

$1 billion

Sunbeam. *Broadcasting. Miami Beach.*

68. Divorced, 3 children

Father, Sydney (d. 1971), ran family's shoemaking business. Ed preferred media. Bought first TV station in Miami in 1962 for $3.4 million; added Boston station 1993. Also real estate. Sunbeam Develo ment, headed by son Andrew owns m than 4 million square feet of commerc space, much of it in Broward County, Ed a big donor to United Way.

Roy Disney

$1 billion

Walt Disney. *Los Angeles.*

74. Married, 4 children

Nephew of cartoonist Walt Disney (d. 19 voluntarily left company after spat w management in 1977. Returned in 19 after teaming up with the Bass brother Texas *(see)* and hiring Michael Eisner a Frank Wells; shown the door in Novem 2003 after fighting Eisner. Didn't go quie With longtime right-hand man, Stan

HAIM SABAN morphed from kids' programmer to Hollywood player.

the signature blonde

Gold, staged public crusade in effort to oust Eisner. Eisner to step down Sept. 2006 when contract expires. Roy and family still own 17 million shares, which remain far below their 2000 high.

Dwight Opperman

$975 million

Publishing. *Dellwood, Minn.*

81. Widowed, 2 children

Used court system to get rich, without using tort suits: Rose through ranks of legal document publisher West Publishing (text publishing, then WestLaw database), took control in 1968. Sold to Thompson Corp. for $3.4 billion in 1996. Moved assets into Key Investment holding company (publishing, medical tech) run by son Vance, who also moonlights as Democratic functionary, fundraiser; big donations to Kerry 2004 presidential campaign. Vance also backed Al Gore-founded cable channel-to-be Indtv; Dwight has donated more than $50 million to alma mater Drake University.

Frederick (Ted) Field

$900 million

Music, movies. *West Hollywood, Calif.*

52. Thrice divorced, 8 children

Heir to the Marshall Field & Co. retail and media empire prompted breakup of fifth-generation Chicago fortune after a falling-out with half-brother Marshall Field V. Moved to Hollywood, founded Interscope music and film company. Sold music unit to Universal for $330 million; still dabbles in Hollywood. Recent producer credits include *The Last Samurai, The Chronicles of Riddick.*

Gary Magness

$875 million

Inheritance. *Cherry Hills, Colo.*

50. Divorced, remarried; 3 children

Son of Bob Magness (d. 1996), founder of cable giant TCI. Inherited big stake in TCI, massive legal headaches. Settled differences with father's second wife, Sharon, and right-hand man John Malone, but now busy sorting out estate of recently deceased elder brother, Kim. Recent 50th birthday celebration included performance by pop diva Jessica Simpson, arranged by wife, Sarah Siegel, designer of So Low line of women's underwear.

At 81, Viacom boss **SUMNER REDSTONE** has plenty of energy for boardroom maneuvering.

Steve Case

$825 million

AOL. *McLean, Va.*

46. Divorced, remarried; 5 children

Williams College grad served food to the masses as Pizza Hut store manager. Catered to the masses on the Internet with America Online, which became the nation's largest online service company. Merged with Time Warner near peak of tech boom, then watched it disintegrate. Resigned as chairman last year; AOL moniker erased from corporate title. Native Hawaiian invests real estate, pineapple farms. Bought 50 stake in luxury club Exclusive Resorts April; firm leases mansions around t world to vacationing high-rollers.

Jeffrey Katzenberg

$800 million

Movies. *Beverly Hills.*

53. Married, 2 children

Cartoon czar oversees animation wing DreamWorks SKG, the ambitious Hollywo upstart cofounded with David Geffen a Steven Spielberg *(see both)*. Now plans to ta unit public this fall in $650 million offerin Former Disney hitmaker *(The Little Merma The Lion King)* bounced out of Magic Kin

his signature masterpiece

dom by Michael Eisner in 1994; sued, later settled for estimated $250 million. Started DreamWorks in 1995 with big-studio aspirations. Now scaling back: music division sold, interactive unit shut down. "I'm not sure that we could ever achieve the expectations that were set up in people's minds."

H. F. (Gerry) Lenfest

$800 million

Lenfest Cable. *Huntington Valley, Pa.*
74. Married, 3 children

Columbia law school grad landed job as in-house counsel to media tycoon Walter Annenberg, who later sold him two cable systems for $2.3 million in 1974. "Gerry" built Lenfest Communications by acquiring cable systems in Pennsylvania, New Jersey, Delaware. Sold to Comcast in 2000. Says he plans to give away his entire fortune. Making good on his pledge with recent gifts to environmental causes, the arts, education.

Marc B. Nathanson

$800 million

NEW **Cable, investments.**
Los Angeles; Aspen, Colo.
59. Married, 3 children

Born in California, raised in suburbs of Chicago; father ran lucrative advertising agency. Door-to-door cable salesman while attending University of Denver. "When they slam the door in your face, you have to figure out the reasons. That's the essence of marketing." Became obsessed with media; took job running Malibu-based Able Cable 1969. Went to work for Jack Kent Cooke, became vice president of marketing, programming at TelePromptTer; left after three years. Convinced father, father-in-law to invest $2 million in his Falcon Cable 1975; sold 24 years later for $3.7 billion to Charter Communications, controlled by Paul Allen *(see)*. Reinvests proceeds via Mapleton Investments: real estate, radio stations, waterless-urinal company. Lifelong Democrat, Friend of Bill, working to rally party base for presidential candidate John Kerry. Avid fly fisherman flies between homes on his Gulfstream IV jet with college sweetheart, wife, Jane, a therapist.

Oakleigh B. Thorne III

$800 million

Publishing. *Millbrook, N.Y.*
72. Divorced, remarried; 4 children

Great-grandfather bought small company in 1892, 21 years before income tax enacted. Published tax guides for lawye accountants. Biggest subscriber: IRS. Oa leigh sold Commerce Clearing House Dutch media firm Wolters Kluwer in 199 Family money now managed by s Oakleigh IV, who also serves as chief exe utive of on-line educator eCollege.

Publisher **PATRICK MCGOVERN** sees more *Dummies* guides on the horizon.

Norman Waitt Jr.

$750 million

Gateway. *Dakota Dunes, S. D.*
50. Divorced, 1 child

Cofounder, with younger brother Ted *(see)*, PC maker Gateway. Left in 1991, started Wa Media and Gold Circle Films. Has yet to foll up the massive success of $400 million gro ing *My Big Fat Greek Wedding*. But mo movies on the way, including *Jiminy Glick* w Martin Short, which closed the Toronto Fi Festival. Waitt Media moving out of TV concentrate on radio, billboards.

Steve Bing & family

$750 million

Inheritance.

NEW *Beverly Hills.*
39. Single, 1 child

Elusive playboy received keys to family fo tune on 18th birthday. Grandfather L Bing constructed, owned pre-World W II NYC apartments with brother Alexa der 1920s. Moved west in 1950s. Aft brothers died, family sold apartment buil ings to NYC developer Sigmund Somm Bought back properties 1977, resold f $200 million in 1985. Quietly reinvested stocks, bonds, Los Angeles real esta Father, Peter, onetime board member Stanford. Steve dropped out of Stanfo after selling screenplay; continues to wr *(Kangaroo Jack, Why Men Should Marry)*, produce (upcoming *Polar Expr* with Tom Hanks). Sued Kirk Kerkori *(see)* in hubbub over who fathered ba with Kerkorian's ex-wife, Lisa; so Damien, with actress/model Elizabe Hurley. Generous Democratic don reportedly paid $5 million to host a fi Rolling Stones concert in support of environmental group. Gives to an array charities anonymously.

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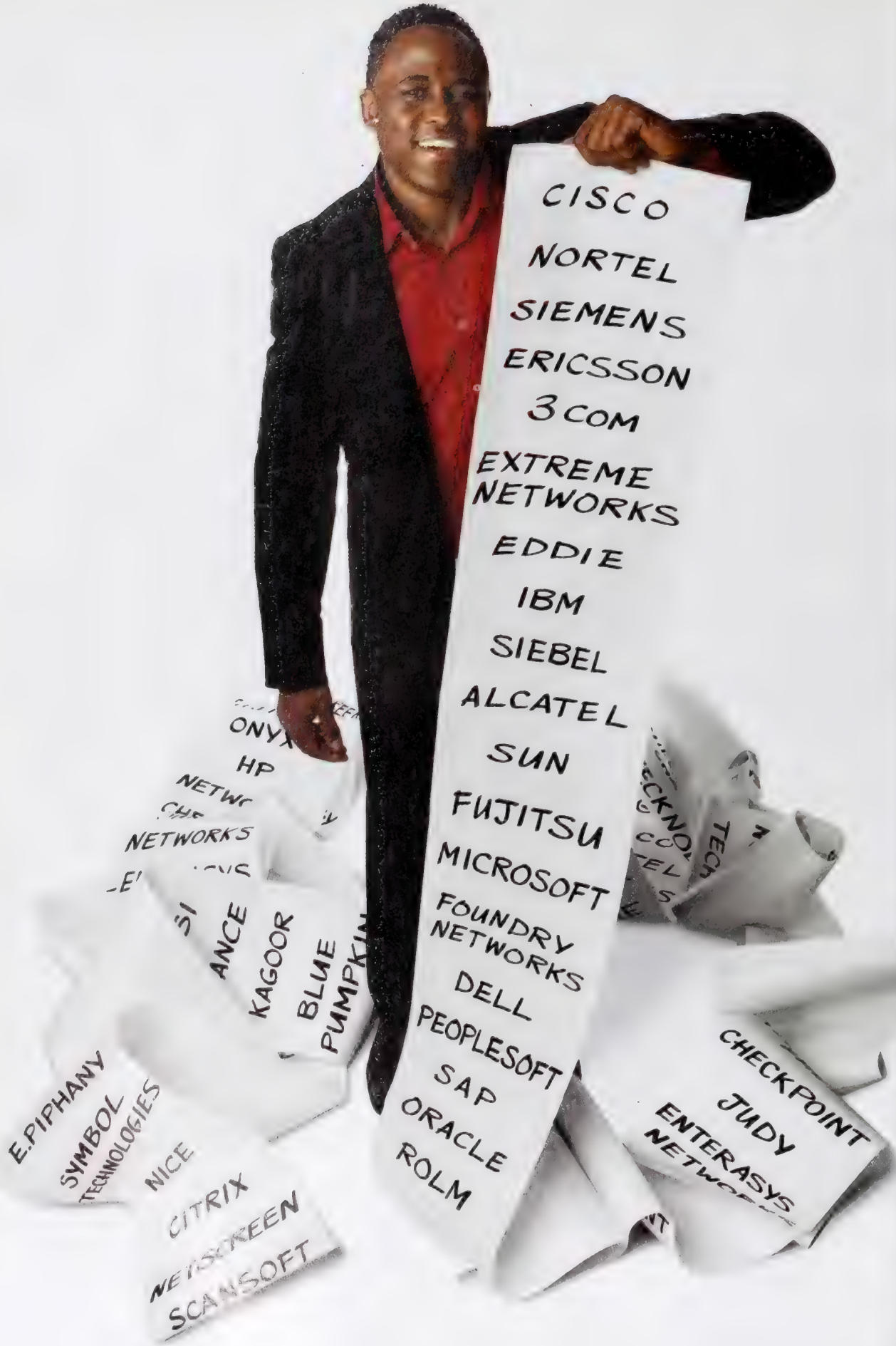
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George Soros

$7.2 billion

Hedge funds. *New York City.*

74. Divorced, remarried; 5 children

Famed hedge fund manager on crusade to defeat President Bush. "It is the central focus of my life." Already donated $15.5 million to anti-Bush groups like MoveOn.org and America Coming Together. Hungarian-born money manager evaded capture by the Nazis; attended London School of Economics after war. Founded Curaçao-based Quantum Fund 1969; stellar long-term record. Currency speculator "broke" British pound in 1992 with top manager Stanley Druckenmiller *(see)*; made $1 billion. Lost at least $1 billion during Russian market crisis 1998. Closed Quantum 2000, now managing Quantum Endowment macro fund: up 15% in 2003. Committed philanthropist and pro-democracy activist has given away $5 billion over last 25 years through network of foundations. Author of *The Alchemy of Finance* (1987) published more politically driven tome, *The Bubble of American Supremacy*, in January.

Edward Johnson III

$6 billion

Fidelity. *Boston.*

74, Married, 3 children

With daughter Abigail *(see)*, controls Fidelity Investments, nation's largest mutual fund company with $1 trillion under management. Father, Edward II, acquired FMR 1946; phenomenal stock picker: "The market is like a beautiful woman—always fascinating, always mystifying." Ned became president 1972; master marketer created a mutual fund for a wide range of investment strategies. Reduced ownership for estate planning 1995. Primary recipients: employees, daughter Abby—now FMR's largest shareholder. Ned still owns 12%.

James Simons

$2.5 billion

NEW **Hedge funds.** *East Setauket, N.Y.*

66. Divorced, remarried; 3 children

Secretive hedge fund manager more interested in science than finance; started car as a theoretical mathematician. MIT gr taught at alma mater and Harvard. Bro codes for U.S. Department of Defense. I in 1968 to take job heading math depa ment at SUNY Stony Brook. Coauthor Cherns-Simons theory 1974, geometr based formula now used by physici searching for fundamental laws of the u verse. Started investing with $5,000 in we ding presents; bored by stocks, traded so bean futures. Founded Renaissar Technologies hedge fund outfit 1982, gen ated stellar returns using computer modeli to find inefficiencies in commodities a futures prices. Between 1988 and 1999 Medallion fund believed to have gain 2,500%; reportedly up 22% last year. Pref Ph.D.s to M.B.A.s: "We don't hire peo from Wall Street. We hire people who ha done good science." Also employs comp tational linguists to analyze markets. Gee market-modelers kept happy with lax dr code, gym, cash bonuses every 6 months. mons believed to own half of Medallio $5 billion assets.

With his Ameriindo fund up sharply, look for arts patron **ALBERTO VILAR** to start opening up his checkbook.

Whether he's buying [illegible] or music, **TOM LEE** deals on his terms.

Charles Johnson

$2.5 billion

Franklin Resources. *San Mateo, Calif.*
71. Married, 6 children

Rupert Johnson

$2 billion

Franklin Resources. *San Mateo, Calif.*
63. Married.

Father, Rupert Sr., founded early mutual fund shop Franklin Distributors 1947. Half-brothers took over 1969, expanded Franklin Resources by adding Templeton Funds 1992, Fiduciary Trust 2001. Also bought Heine Securities from value investor Michael Price *(see)* for $610 million in 1996. Today firm manages $353 billion. FKR named after Ben Franklin for his common sense, frugality. Last year company suspended 3 employees following federal investigation into alleged-market timing. Charles: Yale grad, former Army lieutenant, current chairman. Rupert: Washington & Lee grad, former marine, serves as vice chairman. Charles' son, Gregory, assists as co-CEO.

Ronald Burkle

$2.3 billion

Supermarkets, investments. *Los Angeles.*
51. Married, 3 children

Former bag boy founded investment company Yucaipa 1986; made fortune with leveraged buyouts of supermarket chains Fred Mey Jurgensen's, Ralph's. Other holdings: Yah Alliance Entertainment, K&B Homes. In Fe ruary sold majority stake in food suppl Golden State Foods to St. Louis-based W terau Associates for $110 million. Last year vested $100 million in Sean (P. Diddy) Com Sean John clothing line. Longtime Democ tic fundraiser a close friend, travel partner Clinton; former President calls Burkle's 7 private jet "Ron Air." Other friends: Bo Jesse Jackson, Steve Bing.

Steven Cohen

$2 billion

Hedge funds. *Greenwich, Conn.*
48. Divorced, remarried; 7 children

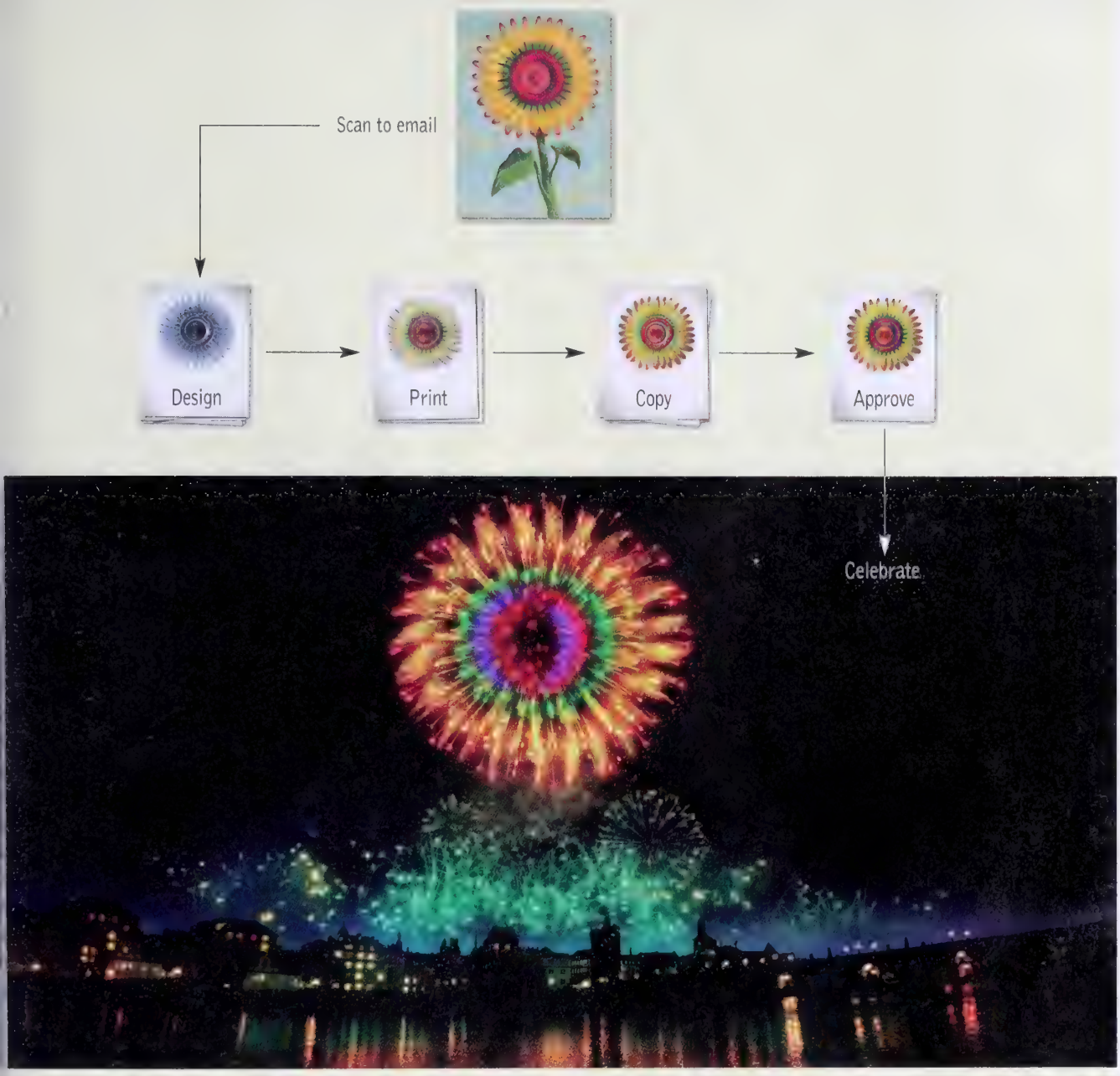
Wharton grad got start trading options Gruntal & Co. 1978; made $8,000 profit first day. Founded hedge fund SAC Capi with $20 million 1992; now manages $4.5 b lion in assets. Fund has average return of least 40% annually over 12 years. Marl mover: firm's 40 portfolios believed to tra 20 million shares a day, accounting for much as 3% of NYSE's daily volume. Hig secretive investor commands highest perf mance fee in the business: 50% of the pro if certain benchmarks met. Avid art enthu ast (collects Andy Warhol), generous giv with wife, Alex, serves on boards of P Tudor Jones' *(see)* Robin Hood Foundati Michael J. Fox Foundation. Last year th committed $3 million to build clinic Greenwich Hospital.

Bruce Kovner

$2 billion

Hedge funds. *New York City.*
59. Divorced, 3 children

Son of a trade unionist dropped out of H vard Ph.D. program after bout of write block. Drifted for 6 years: drove New York C cab, studied harpsichord at Juilliard, consul for Republican Party. At age 31 used $3,(MasterCard line to start trading commodi (soybeans). Made quick $40,000, didn't hec lost $23,000 in hours. Joined Commodi Corp., learned from veteran investor Mich Marcus: "He taught me you could make a r lion dollars." Started Caxton Associates



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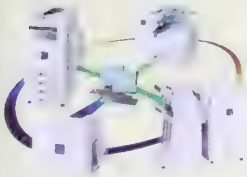

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1983; hedge fund group has $10 billion under management. Size doesn't always matter: returned $2 billion to investors last year to keep from diluting returns. Chairs Juilliard and conservative American Enterprise Institute; spent $2 million publishing fully illustrated version of the King James Bible.

Fayez Sarofim

$1.8 billion

Finance. *Houston.*

75. Twice divorced; 5 children

Son of wealthy Egyptian cotton farmer founded Fayez Sarofim & Co. investment bank in 1958 after earning Harvard M.B.A. "The Sphinx" a buy-and-hold specialist; previous long-term investments include Philip Morris, Procter & Gamble, Coca-Cola. Also early investor in Intel. Company assets up 14% to $42 billion over past year, still down from $60 billion in 2000. Son Chris, 39, being groomed to take over.

Edward Lampert

$1.7 billion

Investments. *Greenwich, Conn.*

42. Married, 3 children

Hard-nosed chairman of ESL Investments rebounded in 2003: $6 billion fund reportedly up at least 20% after falling 15% in 2002. Since founding ESL in 1988, annual returns averaging 25%. Spent several hundred million dollars buying distressed Kmart bonds; now holds controlling interest after hauling company out of bankruptcy in May 2003. Kmart stock up 245% in 2004. Risk taker also has large stakes in Sears, AutoZone. Got start with summer job at Goldman Sachs. Protégé of Robert Rubin; got an early investment from Richard Rainwater *(see)*. High-profile client roster, including Michael Dell, David Geffen, Tisch family's Loews Corp.

Stanley Druckenmiller

$1.7 billion

Hedge funds. *Pittsburgh; New York City.*

52. Married, 3 children

Former money manager for George Soros famous for orchestrating boss' billio[illegible] lar raid on the British pound in [illegible] Timely long and short positions helped generate string of 30% returns for Soros' Quantum Fund. Got start as a stock analyst for Pittsburgh National Bank, started Duquesne Capital Management 1981. Left to work for hero Soros 1988; believed to have kept 30% of mentor's incentive fee. Parted from Soros in 2000 after sustaining massive tech sector losses. Returned to Duquesne Capital to run No Margin Fund. Former director of Paul Tudor Jones' *(see)* Robin Hood Foundation. "Once you make a lot of money, it's incredibly enjoyable to give it away. It's a way to satisfy the soul."

Henry Kravis

$1.5 billion

Leveraged buyouts. *New York City.*

60. Twice divorced, remarried; 2 children

George Roberts

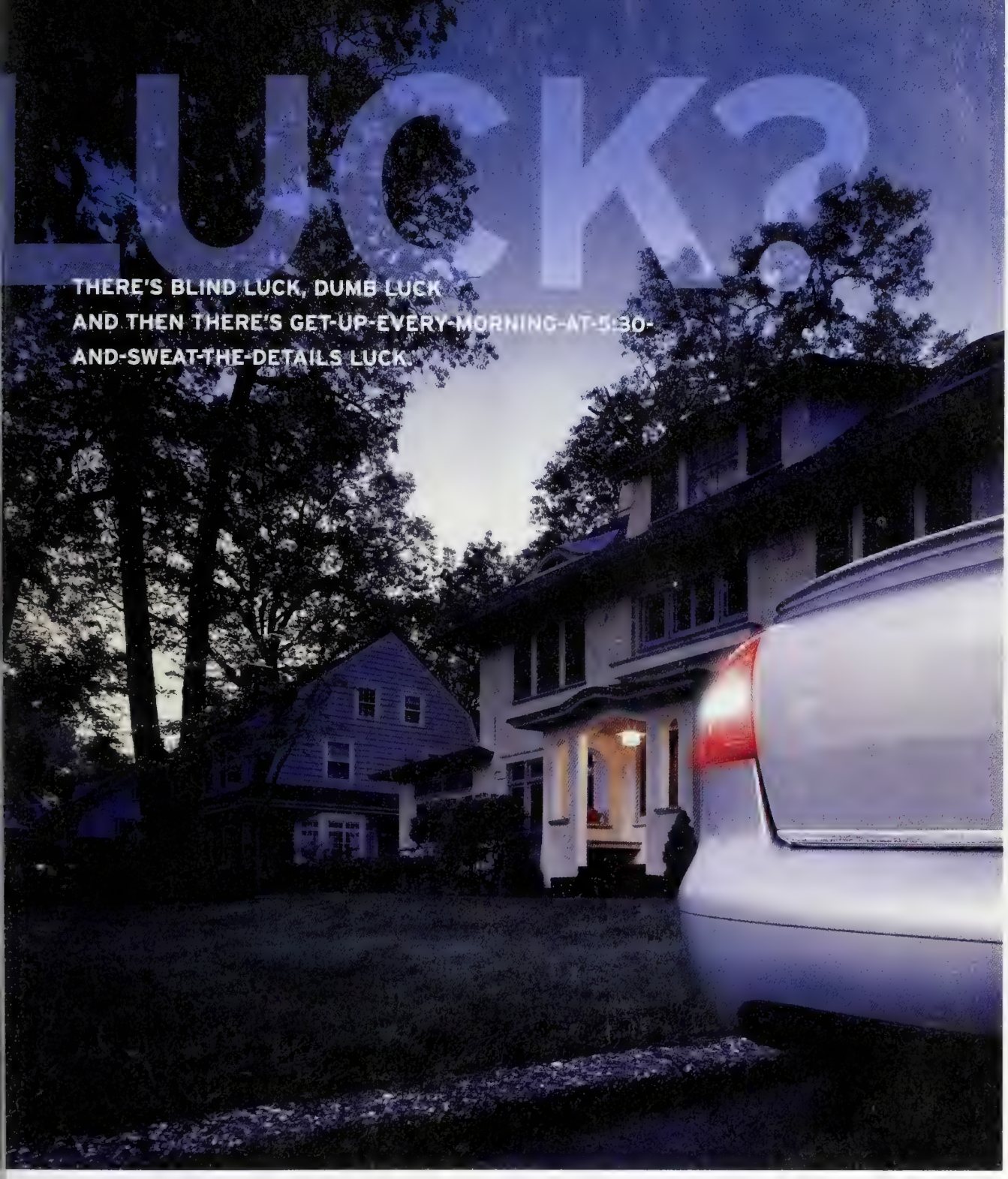
$1.5 billion

Leveraged buyouts. *Los Angeles.*

60. Married, 3 children

First cousins partnered with fellow Be[illegible] Stearns mentor Jerome Kohlberg *(see)* to form leveraged buyout firm Kohlberg Krav[illegible] Roberts 1976. Bought underperforming com[illegible] panies using junk bonds, reworked balan[illegible]

Market mover GEORGE SOROS hopes to move new tenants into the White House.



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sheet, sold for profit. Kohlberg exited in 1987. "Barbarians at the gate" best known for $25 billion RJR Nabisco buyout 1989. Recent spending spree: PanAmSat (satellites), Sealy Mattress, Auto-Teile-Unger (German auto parts). Also sprucing up Primedia: sold off moneylosing *New York* and *Seventeen* magazines; developing TV shows to boost *Hot Rod, Motor Trend* brands. Henry: high-profile New York socialite big donor to Metropolitan Museum; wife, Marie-Josée, director of poverty-fighting Robin Hood Foundation. George: keeps low profile from West Coast office.

Jackson Stephens

$1.5 billion

Investment banking. *Little Rock, Ark.*

81. Twice divorced, 2 children

Joined brother Witt at Arkansas-based investment bank Stephens, Inc. Witt peddled belt buckles and Bibles, then switched to municipal bonds 1933. Bought at low Depression prices, sold high. Jackson built outfit into one of country's largest outside Wall Street; underwrote Wal-Mart public offering 1970, helped Tyson Foods' takeover of Holly Farms 1989.

BY THE NUMBERS

156

members of The Forbes 400 inherited at least some of their wealth.

Current portfolio includes investments in oil (ExxonMobil), biotechnology (ImClone), home appliance retail (Conn's). Son Warren now chief. Bought Donrey Media in 1993; today Stephens Media operates 24 mostly small-town newspapers in Arkansas, Nevada. Online bets include LasVegas.com and CasinoGaming.com. Naval Academy classmate of former President Carter. Sons active in politics: Warren, a Republican fundraiser; Jackson Jr. serves on board of anti-Kerry 527 group Club for Growth.

Dirk Ziff

$1.5 billion

Inheritance, hedge funds. *New York City.*

40. Married, 2 children

Robert Ziff

$1.5 billion

Inheritance, hedge funds. *New York City.*

38. Married, 2 children

Daniel Ziff

$1.5 billion

Inheritance, hedge funds. *New York City.*

32. Single

Brothers. Father, William Ziff Jr., built Ziff-Davis publishing empire (*PC Magazine, Car & Driver, Boating*), sold for $1.4 billion in 1994, retired to Florida. Siblings reinvest proceeds via Ziff Brothers Investments: hedge funds, corporate debt, equities, small stake in DreamWorks SKG. Och-Ziff Capital Management Group hedge fund group manages $8 billion in assets between four funds; OZ Multi-Strategy Fund up 41% in 2003.

Sanford Weill

$1.4 billion

Citigroup. *New York; Greenwich, Conn.*

71. Married, 2 children

Legendary Wall Street exec taking lavish golden parachute to the bank after stepping down as Citi chief last October: sold a quarter of his stock the day after he quit. Remains chairman through 2006 of world's largest financial services company. Lifelong Wall Streeter built Travelers Group into financial empire through acquisition, the last and biggest being Salomon Brothers in 1998;

Healthy profits and a buoyant stock price have kept a spring in the step of ex-Citigroup chief **SANFORD WEILL.**

merged with Citicorp later that year. Mass profits and share price growth keeping vestors happy, but critics point to "Sandy extremely generous pay, as well as role in c porate scandals: Citi recently paid $2.3 billi to settle shareholder lawsuits stemming fr relationship with WorldCom.

Alec Gores

$1.3 billion

Leveraged buyouts. *Beverly Hills.*

51. Divorced, remarried; 5 children

Emigrated from Israel as a child; raised

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Michigan. Founded leveraged buyout firm Gores Technology Group 1987 after selling computers out of his father's basement. Conglomerate now has 40 companies: The Learning Company (education software), Humanic Solutions (payroll, benefits systems), Pierce Technology (videoconferencing hardware). Bargain shopper: likes buying divisions of technology firms, rather than whole companies. Brother Tom *(see)* runs Platinum Equity; other brother, Sam, a Los Angeles talent agent.

Thomas H. Lee

$1.2 billion

Leveraged buyouts. *New York City.*
60. Divorced, remarried; 4 children

Affable LBO titan finally putting to work the $6.1 billion raised in 2001. Led a consortium of investors, including Edgar Bronfman Jr., in $2.6 billion purchase of Warner Music; rumored public offering already in the works. Other recent deals: financial services outfit Refco Group for $2.3 billion, Nortek (oven ranges) for $1.6 billion and Better Foods for $1.1 billion. Harvard grad started investing with $150,000 inheritance 1974. Early success with Sterling Jewelers: bought for $28 million in 1985, sold 2 years later for $210 million. Then Snapple: bought for $135 million 1992; sold to Quaker Oats for $1.7 billion in 1994.

Thomas Bailey

$1 billion

Mutual funds. *Aspen, Colo.*
67. Divorced; 2 children

Michigan State University graduate stepped down as chairman of scandal-tainted Janus, mutual fund company he started in 1969 with money borrowed from his mom. Company fund managers accused of ripping off investors via market timing; firm finalized $100 million settlement with regulators in August. Didn't stop the bleeding: Janus' assets under management down 8% over past year to $130 billion. Bailey sold stake to Stilwell Financial for $600 million in 2002; Janus now led by former Charles Schwab exec Steven Scheid.

Blackjack ace **WILLIAM GROSS** commands a $40 million salary playing the bond market.

William Gross

$1 billion

NEW **Bonds.** *Newport Beach, Calif.*
60. Divorced, remarried; 3 childre

World's biggest bond trader got start gar bling. Psychology major at Duke arrang fraternity poker tournaments. Spent sur mers as a slots manager at Harrah's in La Tahoe; never gambled, slept in car, bathed lake to save money. Started playing blackja in Las Vegas after graduation 1966; turn $200 into $10,000 in four months. Join Navy, served in Vietnam. Moved to Los A geles, got M.B.A from UCLA 1971, to $11,000 securities-analyst position at insu ance giant Pacific Life. Discovered how make money with bonds: trade, don't b and hold. Handed $10 million portfolio manage 1973. Stellar returns made him a s perstar; earned $20 million bonuses in t 1980s. Bond division spun off to crea Pimco. Company went public 1994, then so to German insurance giant Allianz AG f $4.7 billion in 2000; personally made mo than $400 million. Current Pimco chief i vestment officer. Annual salary: $40 millio Flagship Pimco Total Return Fund up 9.7% year since 1987; $76 billion in assets. Ha worker: wakes up each morning at 3 a.m. monitor Asian markets. Prince Charmin kept second-wife-to-be in the dark abo wealth until they were engaged.

Paul Tudor Jones

$1 billion

Hedge funds. *Greenwich, Conn.*
50. Married, 4 children

Memphis-born cotton trader turned hed fund manager hasn't had a down year since started Tudor Investment; firm has post 26% average annual returns since 1986. A sets under management: $10 billion. Plans expand operations into Asia, bulk up staff Europe. Early success: predicted 1987 mar crash, turned prescient short positions i 200% gains. "You adapt, evolve, compete die." Avid pheasant hunter, bass fisherm owns property around the world, includi getaways in Florida Keys, Zimbabwe. De cated philanthropist founded New York Cit poverty-fighting Robin Hood Foundation

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Mercedes-Benz

Jerome Kohlberg

$1 billion

Leveraged buyouts. *Mt. Kisco, N.Y.*

79. Married, 4 children

Harvard M.B.A. left Bear Stearns in 1976 to start buyout firm KKR with Henry Kravis and George Roberts *(see both)*; bought undervalued companies using massive debt, cleaned up balance sheets, sold for massive profits. First buyout: Houdaille Industries for $355 million 1979. First $1 billion deal: Pace Industries 1985. Opposed to hostile takeovers, patriarch of firm left in 1987; major source for anti-KKR book *The Money Machine*. Retired 1994, now gives generously, through the Kohlberg Foundation, to Salk Institute, which does humanitarian scientific research .

Michael Price

$1 billion

Investments. *Far Hills, N.J.*

52. Divorced, remarried; 4 children

Tough money manager learned finance as a $200-a-week research assistant under Max Heine (d. 1988). Earned reputation for buying undervalued companies, raising hell: tussled with management of companies held in his portfolios. Sold Heine Securities in 1996 to Franklin Resources for $670 million and lucrative 5-year employment contract. Now runs MFP Investors; owns stakes in Dow Jones, Dillards, Edward Lampert's *(see)* Kmart Holdings. Avid polo player serves on board of NYC's Jazz at Lincoln Center with money man Tom Lee *(see)*.

John Calamos

$1 billion

NEW **Mutual funds.** *Naperville, Ill.*

64. Divorced, 2 children

Son of Greek immigrants swept floors at family's Chicago grocery store. Developed passion for stock market after investing parent's $5,000 nest egg in teens. M.B.A from Illinois Institute of Technology 1965, joined Air Force; served year in Vietnam. Became stockbroker, discovered niche in convertible securities; worked 18 hour days selling to clients. Founded Calamos Asset Management 1977. Today $32 billion under management. Recent tech plays include Amazon, Cisco, Ebay. Nephew Nicholas serves as co-investment chief; son, John Jr., also works for firm. Daughter, Laura, a faculty member at the University of North Carolina.

Bargain shopper **ALEC GORES** prefers to buy companies in distres

Robert Day

$1 billion

Money management. *Los Angeles.*

60. Married, 3 children

Money manager founded Trust Company of the West 1971; sold 70% of company to French bank Société Générale in 2001 for $2.5 billion. Assets under management: $99.2 billion. Owns 600,000 acres of timberland in Florida. Low-profile philanthropist serves as chairman of the $1 billion W.M. Keck Foundation, offering grants to overachievers in engineering, scienc liberal arts.

Arthur Rock

$975 million

Venture capital. *San Francisco.*

78. Married

Early tech investor coined the phrase "ve ture capital." Got start picking scien stocks on Wall Street 1950s. Sensed M 1961 crash; quit, moved West. A founder Intel, 1968; $300,000 investment on worth billions, now $340 million. Als scored big with $200,000 investment in Sc entific Data Systems; sold stake to Xerox f $980 million years later. Early mantra: i vest primarily in companies within drivi distance of Bay Area. Now acts as advis to tech fledglings. Donated $25 million

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MICHAEL PRICE teaches the nuances of investing to youngsters.

rvard Business School in 2003 to start repreneurship program. "I'd rather be own as a skier than a financier."

ernard Osher

60 million

nking, investments. *San Francisco.*
Married

anks to a big stake in Golden West Fi-ncial, the profitable thrift he cofounded h sister Marion and her husband, Her-t Sandler *(see both)*, took over auctioneer tterfield & Butterfield in 1970, built into e of the nation's largest houses. Sold to ay for $260 million in stock in 1999. Ac-e philanthropist supports the arts, edu-ion, Jewish causes. Spends free time fly-ning, hiking.

Alberto Vilar

$950 million

Money management. *New York City.*
63. Divorced

Founding partner of Amerindo Investment Advisors ($2 billion in assets) back in his investors' good graces: fund up 140% since the beginning of 2003. Early investor in AOL, Ebay, Genentech; also known as "crossover" investor: buys private companies, fixes, takes public, then holds shares for the long term. Still owns large stakes in Amazon, Yahoo. Big arts benefactor forced to freeze some promised contributions in recent years, including to New York's Metropolitan Opera and the Washington National Opera. With tech on the rebound, the fat lady should be singing soon.

Elizabeth Wiskemann

$950 million

NEW **Mutual funds.** *San Rafael, Calif.*
Widowed

Widow of Swiss billionaire R. Martin Wiskemann, longtime gold and precious metals fund manager for Franklin Resources. Inherited 6% of the money management outfit; now third-largest shareholder behind Charles and Rupert Johnson *(see both)*. Highly private; patron of Bay Area Red Cross.

Herbert M. Sandler

$920 million

Banking. *San Francisco.*
72. Married

With wife, Marion *(see)*, and her brother Bernard Osher *(see)* founded thrift Golden West Financial in 1963. Concentrates on savings accounts, low-risk residential adjustable-rate mortgages; holds loans in portfolio rather than selling into secondary market. Formula backed by sizzling housing market: 5-year annualized return of 26.6% bests any other bank. Donates money to medical research, education, progressive Center for American Progress. "Philanthropy is our hobby."

William Bowes

$860 million

Venture capital. *San Francisco.*
78. Married

Began funding entrepreneurs as a hobby in the 1950s. Worked on Hewlett-Packard's public offering during 25-year tenure with Blyth & Co. (now PaineWebber Securities). Founded U.S. Venture Partners 1981, has since invested $1.1 billion in more than 270 companies. Big scores with Amgen, Sun Microsystems. Former Amgen board member owns stake worth $450 million despite 20% decrease in stock price over past year. Other investment: Callaway Golf. Took semiconductor developer Leadis Technology public in a $85 million offering June. Gives to alma maters Stanford and Harvard Business School.

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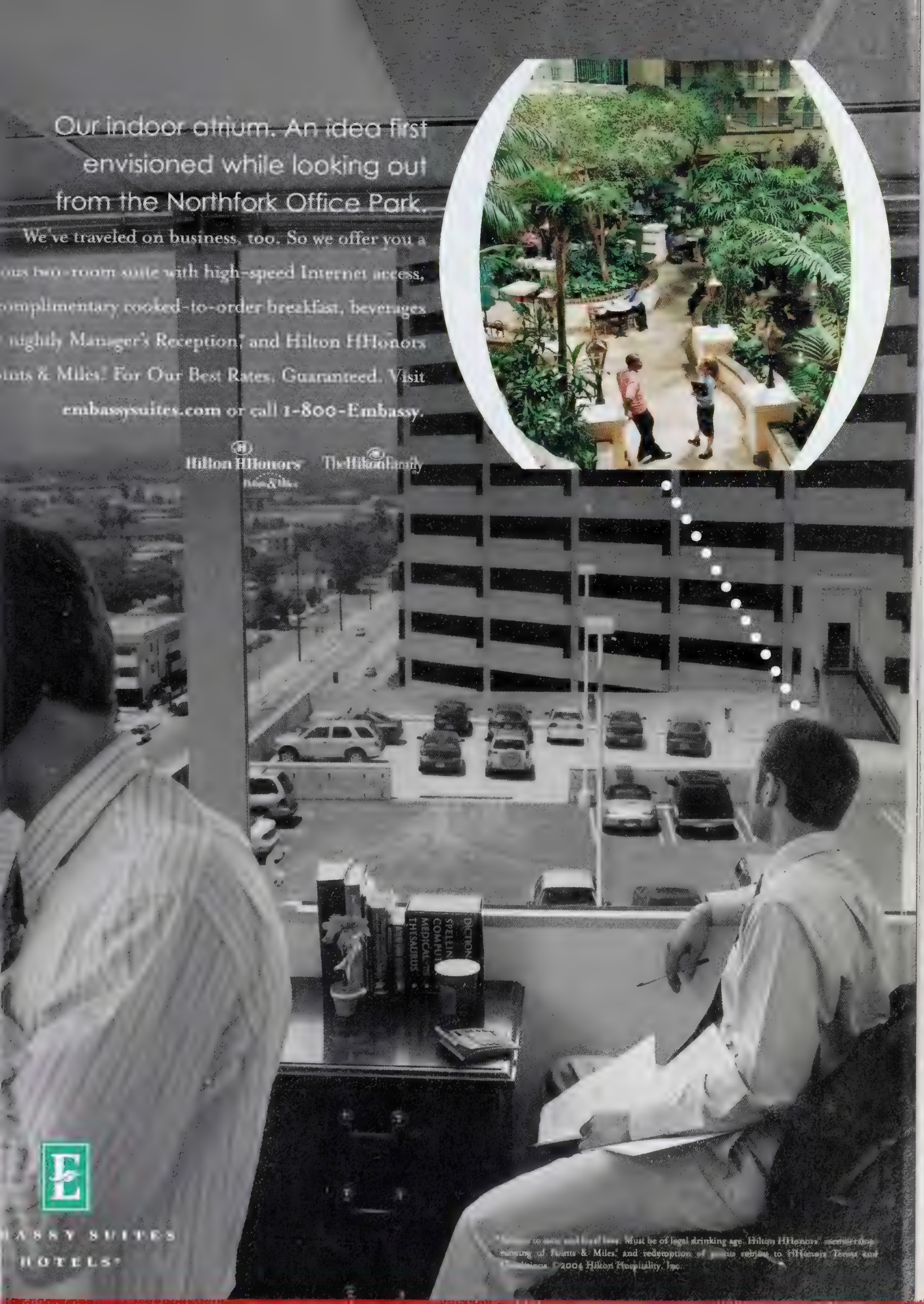
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Julian Robertson Jr.

$850 million

Money management. *New York City.*
72. Married, 3 children

Famed macro hedge fund manager returned cash to investors from his Tiger Fund 2002 after suffering 2 years of tech-related losses; personally netted $570 million. Mentor to the next generation of hedge fund gurus, including Ken Griffin and Louis Bacon *(see both)*; many of his "Tiger Cubs" are graduates of University of Virginia, where a research center has been named in his honor. Lately obsessed with New Zealand: building golf courses and private resorts there. Also loves Kiwi wine; owns cult winery Dry River and more popular Te Awa.

Thomas Marsico

$825 million

Mutual funds. *Englewood, Colo.*
49. Married, 3 children

Friendly fund manager at Janus founded Marsico Capital in 1997 with $30 million option from Bank of America for half the company. Sold remaining 50% stake for $950 million to BofA in 2000; still manages fund's $35 billion assets under management. Tech junkie sold out before bubble burst, reinvested in defense stocks (Lockheed Martin, General Dynamics). Says his returns have averaged 14.8% annually over the last 10 years.

BY THE NUMBERS

244 members of The Forbes 400 are entirely self-made.
Their average net worth:
$2.5 billion

Folksy couple **MARION** and **HERBERT SANDLER** created their wealth with savings accounts and low-risk mortgages.

Thinks elections are bad for business: "The political climate is creating a lot of uncertainly in the markets. There's too much negative energy."

Alfred P. West Jr.

$800 million

Money management. *Paoli, Pa.*
61. Married, 3 children

Aerospace engineering grad from Georgia Institute of Technology dreamed of becoming an astronaut; bad eyes grounded him. Went to Wharton, founded Simulated Environments in 1968 while a grad student. Developed early model for automating back-office operations for banks and financial institutions. Expanded into asset management, private equity. SEI Investments now manages $100 billion in assets, processes $50 trillion in transactions each year. Profits up 20% in second quarter this year, but lately a roller-coaster stock. Avid hunter spends time on 20,000-acre Texas ranch and home in Jupiter Island, Fla. Donated $10 million to alma mater in 2001, established center for developing tech-enhanced learning tools.

Stephen A. Schwarzman

$750 million

NEW **Investments.** *New York City.*
57. Divorced, remarried

With partner, Peter G. Peterson, cofounded Blackstone Group, Wall Street buyout firm. Duo started outfit in 1985 with $400,000; today 4 buyout funds own 33 compan with combined $50 billion in sales, includ Universal Studios Florida (amusem parks), Houghton Mifflin (publishin Premcor (oil refining). Bought automot division of TRW for $4.7 billion in 20 largest leveraged buyout since KKR's p chase of RJR Nabisco 1989. Currently inve ing $6.5 billion from fourth fund, world's largest: has stakes in hotel opera Extended Stay Hotels, German chemi maker Celanese. Headed bankrup restructurings of Enron and Global Cro ing. Firm also owns 13 million square f of real estate in New York, Boston, San Fra cisco. Son of linens-store owner attend Yale with President George W. Bu founded ballet society to meet girls. Th Harvard M.B.A., managing director Lehman 1978 at age 31. Owns $30 milli Park Avenue apartment, lots of art.

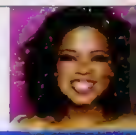
Louis Bacon

$750 million

NEW **Hedge funds.** *London.*
48. Divorced, 5 children

Raised in Raleigh, N.C. Boarding scho then Middlebury College to study lite ture. Met Wall Street trader Walter Fra while working summer job on fishi boat. Worked following summer Frank, developed trading acumen. Start hedge fund in 1989; rose 86% in first y after correctly guessing Gulf war's eff on oil prices. Today Moore Capital Ma agement: $7 billion under manageme claims average annual returns of 24 Secretive trader endured expens divorce; now engaged to former curat of his art collection.

Working Women



Please turn to the next page for a special foldout section o the richest women in America

rtunately, our glass ceiling retracts.

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Ladies of the House

HISTORICALLY WOMEN ACCOUNT FOR ONLY A SMALL NUMBER AMONG TH FORBES 400—USUALLY HEIRESSES LIKE DORIS DUKE AND JOAN KROC. THOUG SELF-MADE WOMEN LIKE OPRAH WINFREY AND MEG WHITMAN REMAIN FEW AN FAR BETWEEN, THEY OWE THEIR STANDING, IN NO SMALL PART, TO SOME O YESTERYEAR'S WORKING GIRLS.

BY LEA GOLDMA

HELEN COPLEY

KATHARINE GRAHAM

ESTEE LAUDER

Helen Kinney Copley

Former secretary married James Copley, chief executive of what woul later become Copley Press in San Diego. Helen inherited the busine when James died in 1973 and immediately made an impact. Amon her radical ideas: her newspapers should increase coverage of minor ties and have an ombudsman to respond to reader complaints. Whil at the helm, Helen Copley's papers won two Pulitzers and, by 199 became one of the largest companies in U.S. headed by a woman.

Gertrude Ramsay Crain

Following the death of husband G.D. Crain Jr. in 1973, Gertrud assumed the chairmanship of Crain Communications an expanded the publisher's periodicals from 5 to 25. Though he husband was credited with the journalism credentials, Gertrud won kudos for her business smarts.

Katharine Graham

Former copy girl inherited, transformed the *Washington Post* into on of America's most prestigious newspapers, which in turn cemente her status as one of the Beltway's most influential people. Under he stewardship, the *Post* published the "Pentagon Papers" and cracke Watergate, winning the Pulitzer Prize in 1973.

Estée Lauder

With skin creams concocted by a chemist uncle and later reformulate in her kitchen, Lauder peddled her homemade potions to Fifth Avenu passersby before landing counter space at Saks Fifth Avenue. This yea the cosmetics giant generated $5.8 billion in sales worldwide wit famed brands like Clinique, Aveda and, of course, Estée Lauder.

Doris Fisher

With her husband, Donald, Doris helped turn a small jeans shop i San Francisco into a national clothing chain. Today the Gap is one o the world's largest specialty retailers, with some 3,000 stores globall including sister brands Banana Republic and Old Navy.

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Merchants

AMERICANS HAVEN'T LOST THEIR APPETITE FOR SHOPPING. THIS GROUP GOT RICH SELLING EVERYTHING FROM TELEVISIONS TO TWO-BY-FOURS.

ARTHUR BLANK stepped down as Home Depot chief in 2001. Now he keeps his eyes trained on his Atlanta Falcons football team.

Merchants rankings start on page 172 ▶

BY THE NUMBERS

17

members of The Forbes 400 have never been married.

John Menard Jr.

$3.7 billion

Home improvement stores.

Eau Claire, Wis.

64. Twice divorced; 6 children

Sole owner of home improvement chain with more than 170 stores, taking in $5 billion a year, constantly fighting Lowe's and Home Depot for market share. Also counts IRS among principal foes: taxman claims CEO Menard's profit-based bonuses are really nondeductible dividends. Menard fighting all the way. Press-shy hardware man also famous for micromanagement style, passion for auto racing.

Richard Schulze

$2.5 billion

Best Buy. *Edina, Minn.*

63. Widowed, remarried; 4 children

Electronics salesman started own car-stereo shop in 1966. Added appliances, VCRs to bring in older customers; changed name to Best Buy. Introduced big-box store concept: stacked inventory on sales floor, let customers fiddle with products. Today 750 stores, $25 billion in sales. Stepped down as CEO in 2002. Established the Schulze School of Entrepreneurship at alma mater University of St. Thomas (Minnesota) in August.

Bernard Marcus

$2 billion

Home Depot. *Atlanta.*

75. Divorced, remarried; 3 children

Arthur Blank

$1.2 billion

Home Depot. *Atlanta.*

62. Divorced, remarried; 6 children

Partners fired from now-defunct Handy Dan Home Improvement Centers in 1978, founded do-it-yourself category killer Home Depot. Took public 3 years later; now $65 billion in sales and still growing: sales up 12% over year. Founders have hung up their tool belts but remain active: Marcus financing $200 million aquarium in Atlanta; Blank bought football's Atlanta Falcons in 2002 for $545 million.

Michael Krasny

$1.5 billion

CDW Corp. *Highland Park, Ill.*

51. Married, 1 child

Used car salesman changed course after placing a $3 ad in the *Chicago Tribune* to sell his old computer. Saw potential in discount computer sales, started Computer Discount Warehouse 1984. Today CDW sells some $5 billion in computer gear, mostly to businesses, government. Stepped down as chief executive in 2001. Now managing personal portfolio; invests in low-risk stocks and bonds.

David Green

$1.2 billion

Hobby Lobby. *Oklahoma City.*

63. Married, 3 children

Built chain of arts-and-crafts stores from scratch, starting in 1972 with 1 store selling handmade wooden picture frames. Now 335 stores, estimated $1.3 billion in sales. Expands on the cheap, often by renovating empty big-box stores instead of building new. Low-tech retailer eschews bar codes, buying from wholesale suppliers; set up offices in China, Philippines to buy di from factories. Devout Christian ke stores closed on Sundays, supports churc and evangelical missions around the wo

Leon Levine & family

$840 million

Family Dollar Stores. *Charlotte, N.C.*

67. Married, 3 children

Career in retail started at age 13, help mother run department store after fath death. Started deep-discount chain Far Dollar Stores in 1959 with $6,000 loan. S now more than $5 billion. Leon retire chairman in 2003; son Howard takes car daily operation.

Father of the big box **RICHARD SCHULZE** encouraging entrepreneurs in Minnesota Stepped down as Best Buy chief in 2002

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Converged Networking

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SEVERAL TIME ZONES AWAY, THE CUSTOMER HAD ONE OF THOSE COMPLICATED orders that salespeople dread. The new system was a unique customization requiring hard-to-get parts from three different suppliers — and it needed to be shipped to five addresses within two weeks.

KEEP CUSTOMERS HAPPY

Thus began that familiar high-stakes race against time, a communications relay involving engineers, suppliers, production managers and logistics. But thanks to converged networking, these far-flung parties were able to communicate instantly, share access to real-time data over secure virtual private networks and consult via videoconferencing. The system was built and shipped in record time. And the demanding customer was happy.

Today, with customers, partners and production located around the world, meeting real-time, global challenges anywhere can be difficult, especially when customer satisfaction is a top priority.

It's no surprise, then, that many businesses are reshaping the way they communicate. By converging voice, data, video, fax, Web and e-mail into a single broadband network, they are experiencing cost efficiency and productivity never before dreamed possible. Instead of juggling a multitude of separate networks and devices, companies are running powerful applications on a single, converged Internet Protocol (IP) network, consolidating their scattered IT resources while saving a great deal of money.

FLEXIBILITY AND CONTROL

IP has always been a gateway to the business world. Now it's a gateway to a whole new way of doing business, forever changing the way we communicate.

"Companies are realizing that convergence is far more than controlling costs," says David Belanger, vice president of information and software systems research at AT&T. "It also brings greater flexibility and easier management for the IT department. Plus, it allows user organizations to take complete control of their communications, giving them the tools they need to be far more productive."

Right from the desktop, it becomes possible to access and manage all communication features. Voice mails, e-mails and faxes can all be sorted into one in-box, and setting up videoconferences or a virtual private network (VPN) becomes a snap. A standardized interface makes it easy to retrieve, share and act on real-time data with customers and suppliers while simultaneously keepin watch on employee productivity. When they're on the g executives can just plug in anywhere, and their networ calls and e-mail will find them.

"Many of these new features will change the wa businesses think about their communications," say Belanger. "And in many cases it will change the wa they do business."

UNLIMITED POTENTIAL

The potential afforded by converged networking virtually endless. For example:

- Retailers are able to consult with suppliers face-to-fac in different time zones.
- Insurers can present dozens of policyholders with rea time risk analysis.
- Doctors can access a patient's entire medical history securel
- Government workers can prioritize calls during emergencie
- Financial professionals can access all account informatio the minute a client calls.

Two-thirds of global businesses surveyed in a recen study by the Economist Intelligence Unit plan to deplo converged networks and 55% are already doing so. It's n wonder that experts predict this technology will become decisive factor in the quest for competitiveness.

"In today's climate, a company's very survival ofte depends on how effectively it can communicate," say Belanger. "Thanks to converged networking, companie can productively collaborate like never before and lowe costs while keeping their customers happy."

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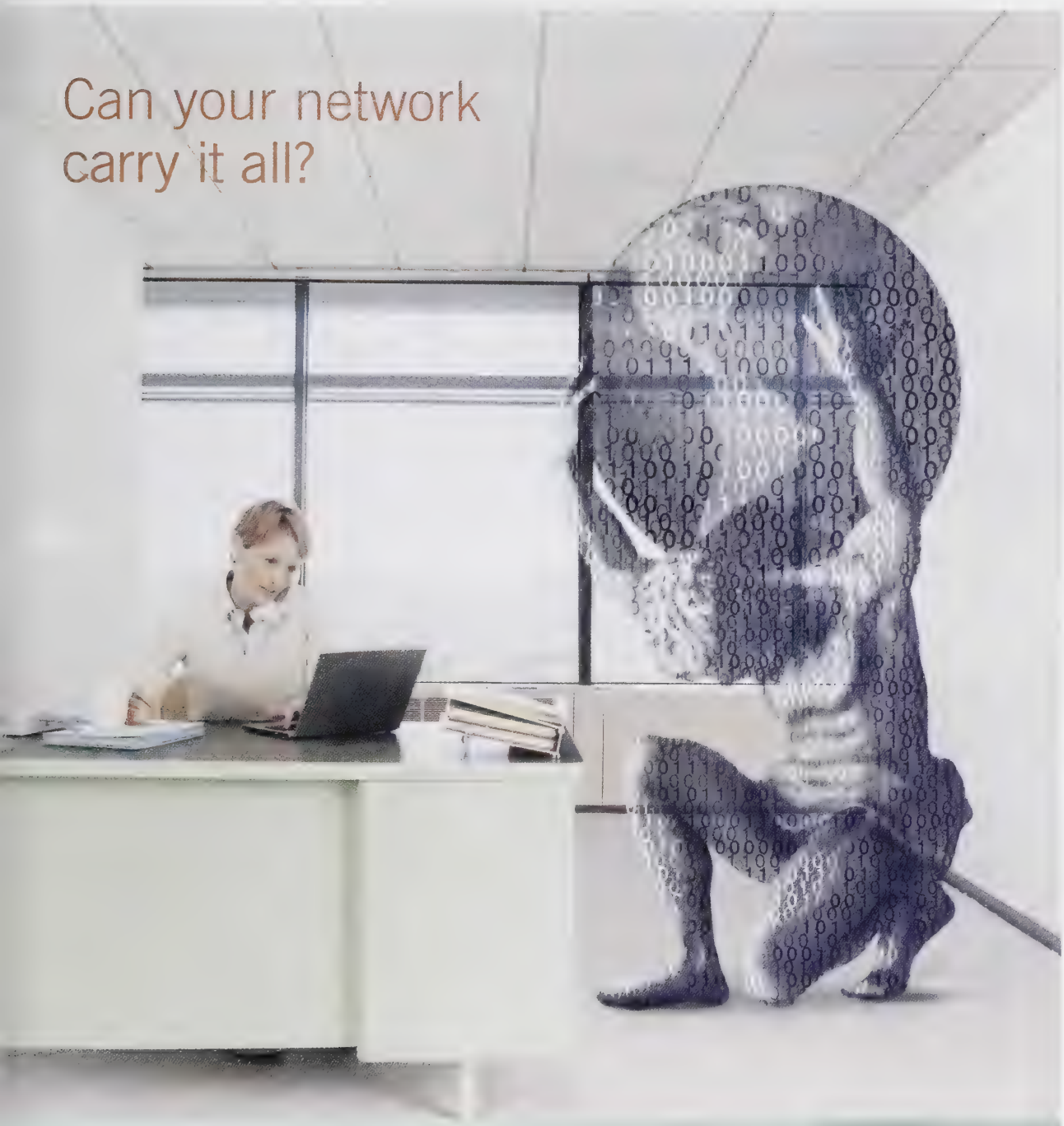

GAIN ADAPTABILITY. Can your network carry both voice and data throughout the world? Can it ease you into IP telephony at your own pace, while still giving you the reliability and security you expect? Can it deliver new business applications that provide greater return on investment than you may have thought possible? AT&T has the networking expertise to deliver VoIP services and applications that interoperate with the industry's leading VoIP equipment providers. Plus, the capacity to carry all your applications forward–no matter how heavy the load. **CAN YOUR NETWORK DO THIS?**

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John E. Abele

$4.5 billion

Boston Scientific. *Boston.*

67. Married, 3 children

Peter Nicholas

$3.8 billion

Boston Scientific. *Boston.*

63. Married, 3 children

Businessman Nicholas and scientist Abele met at kids' soccer game, cofounded biotech firm Boston Scientific in 1979. Maintained healthy business making medical devices for minimally invasive surgery; received big booster shot last year after FDA approved Taxus, drug-coated stent for clogged arteries. Today Boston Scientific dominates the stent market, but lately under pressure amid patent infringement lawsuit from rival Johnson & Johnson, FDA recall of malfunctioning stents. No matter. Stock still up 7% in the past year.

James Sorenson

$3.7 billion

Medical devices, real estate.

Salt Lake City.

83. Married, 8 children

Soft-spoken entrepreneur grew up dirt-poor in Yuba City, Calif., father dug sewer trenches. Started as salesman for Upjohn. Tinkered with, eventually patented medical devices: plastic catheter, disposable surgical mask. Sold Sorenson Research medical business to Abbott Labs 1980; stake now worth $2 billion. "I've made a life out of putting a business aspect to my innovative mind." Also real estate: 520,000 acres, including undeveloped mountain across from posh Park City, Utah ski resort; cattle ranch in central Utah serves as wind farm. Dabbles in video compression, genomics.

William Cook

$3.2 billion

Medical devices. *Bloomington, Ind.*

73. Married, 1 child

Army surgical technician became hypodermic-needle salesman, started own medical device company in 1963 from Bloomington apartment. Made wire guides for angioplasty, catheters, stents. Today Cook Group: manufacturer of 30,000 medical devices, estimated $600 million sales. Planned to sell it all to rival Guidant for $3 billion, but deal derailed after disappointing clinical tests of innovative stent. Cook Group moving on: converted old Bloomington RCA television factory into biotech lab. Early-bird worker still arrives every day at 5 a.m., but son, Carl, being groomed to take over company.

Maurice Greenberg

$3.1 billion

American International Group. *NYC.*

79. Married, 4 children

Testy chief of insurance giant AIG enjoying healthy profits, buoyant stock price. Also generous pay package. WWII vet now leading fight against trial lawyers, corporate regulators: "A bubble economy translated into a bubble on awards." Raised on upstate New York farm, "Hank" now well into 4th dec at helm, but succession plans still a secre sons widely regarded as leading contenders post at various times, but both left and are r heading up other companies.

Barbara Piasecka Johnson

$2.6 billion

Inheritance. *Monaco.*

67. Widowed

Native Pole, former chambermaid marr John Seward Johnson (d. 1983), son founder of Johnson & Johnson. Inheri large stake in J&J. Converted New Jer mansion into tournament-quality golf cl but "Basia" now based in Monaco. Last y unloaded Empire furniture and Old Ma drawings in $6 million yard sale at Sotheb

Ronda Stryker

$1.8 billion

Inheritance. *Kalamazoo, Mich.*

50. Married, 3 children

Jon Stryker

$1. 8 billion

Inheritance. *Kalamazoo, Mich.*

46. With partner, 2 children

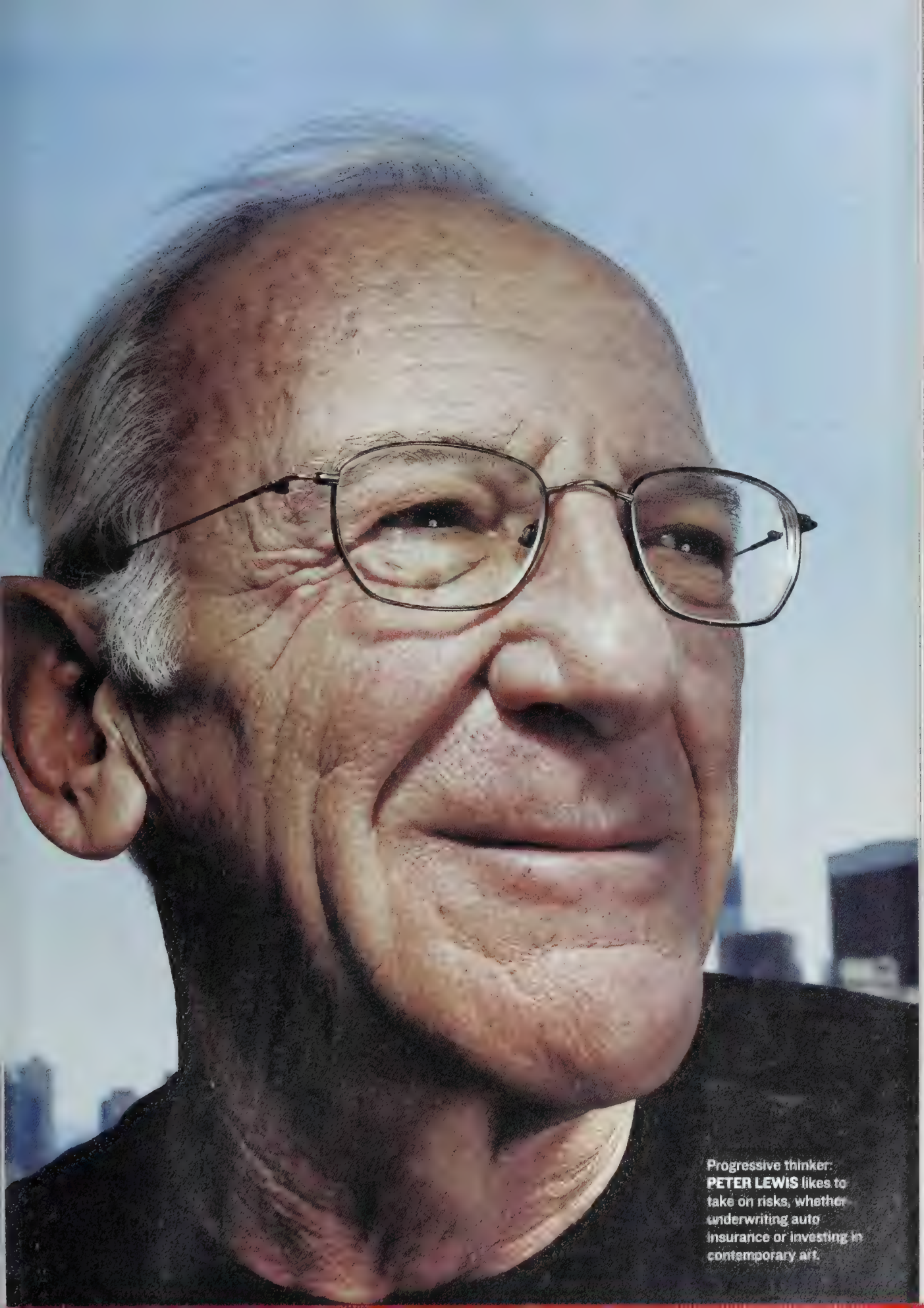
Pat Stryker

$1.5 billion

Inheritance. *Fort Collins, Colo.*

48. Divorced; 3 children

Grandchildren of Homer Stryker (d. 198



Progressive thinker: **PETER LEWIS** likes to take on risks, whether underwriting auto insurance or investing in contemporary art.

orthopedic surgeon who invented mobile hospital beds. Founded medical supply company Stryker Corp., heirs now control 30% of the company. When father, Lee, died in 1977 plane crash, John Brown *(see)* took over company. Ronda: only family member to sit on board. Architect Jon: founder of Arcus Foundation, focuses on gay and lesbian rights, animal conservation. Pat: runs Stryker Sonoma Vineyard on 32 acres in Alexander Valley.

Ernest Stempel

$1.8 billion

American International Group. *Hamilton, Bermuda.*

88. Widowed, remarried; 3 children

Joined American Insurance Group in 1938 as assistant manager when firm had only 23 employees. After WWII stint in Navy returned to AIG, studied law at night. Sent to Bermuda in 1953 by AIG founder, Cornelius Vander Starr, to run subsidiary's general insurance operations. Took over life insurance division 1963, chairman 1979. Retired, lives in Bermuda with wife, Brendalyn.

Peter Lewis

$1.6 billion

Progressive Corp. *Coconut Grove, Fla.*

70. Divorced, 3 children

Joined father's insurance company after earning degree from Princeton; took over company in 1965. Accelerated growth by targeting high-risk drivers; took Progressive public 1971. Recent focus: high-tech device that monitors customer's driving habits and sets rate accordingly. Art collector has lined walls of corporate offices with more than 6,000 pieces of contemporary art. Supports Guggenheim Museum, Cleveland Museum of Art, Case Western Reserve University. Big Democratic contributor to groups opposed to President Bush.

Arthur L. Williams

$1.5 billion

Insurance. *Palm Beach, Fla.*

62. Married, 2 children

Former high school coach started selling life insurance in 1967 to supplement income. Founded own agency 1977 on simple maxim: "Buy term, invest the difference." Sent swarms of sales "termites" out to attack rival's market share by offering low-cost life plans, mutual funds. Sold to Primerica in 1989. Now owns shares of Citigroup worth $900 million.

Alfred Mann

$1.4 billion

Inventor, entrepreneur. *Los Angeles.*

78. Divorced; 6 children

Lucrative year for friendly biotech investor: sold Advanced Bionics (neurostimulation) to Boston Scientific for $4.1 billion in May (remains co-CEO); took biomed research outfit MannKind public in August. Born to English father and Polish mother, started selling magazines, lemonade during the pression. Earned physics master's fr UCLA. Founded, sold aerospace compa Spectrolab and Helioteck 1960s. Fun Pacesetter Systems (rechargeable pacem ers), MiniMed (insulin pumps); sold co panies to Medtronic for $4.2 billion in 20 Committed philanthropist says he'll don his entire fortune to charity and researc

Patrick Soon-Shiong

$1.2 billion

Generic drugs. *Los Angeles.*

52. Married, 2 children

South African native graduated Universit Witwatersrand, moved to U.S. to take fac position at UCLA's medical school. Lef

Drugmaker **PATRICK SOON-SHIONG** is injecting new life into generic pharmaceuticals.

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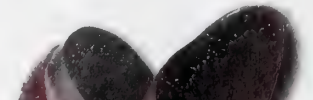

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commercialize research on new drug delivery systems. First company, VivoRx, developed new islet cell transplantation technique for diabetics. Tangled with investors, left to form American Bioscience. Developed first proprietary drug, Abraxane, reengineered form of cancer blockbuster Taxol. Bought generic-drug manufacturer American Pharmaceutical Partners to make, market drug, but still waiting FDA approval. Continues to expand generic business: 10 FDA approvals for off-patent injectable drugs so far this year. Bought oncology drug manufacturing plant in Switzerland to open European, South American markets.

George Joseph

$1 billion

Insurance. *Los Angeles.*

83. Divorced, remarried; 5 children

West Virginia-born numbers geek completed math and physics degrees from Harvard in 3 years 1949. Started as actuarial trainee at Occidental Life making $225 a month; saw sales guys made more. Started own property and casualty shop. Founded Mercury General in 1962, targeted customers having trouble getting auto insurance. Focused on personal, noncommercial vehicles; aggressively investigated suspicious claims. Took public 1985; now California's 3rd-largest auto insurer with $3 billion in assets..

Thomas Frist Jr. & family

$960 million

HCA Healthcare. *Nashville.*

66. Married, 3 children

Medical doctor founded Hospital Corp. of America with father in 1968. Took public 1969; owned 51 hospitals by 1973. Merged with Columbia Healthcare in 1994. Now nation's largest for-profit hospital operator with 281 hospitals and outpatient surgery centers. Came out of retirement to help revive company during a lengthy Medicare-fraud investigation. But still ailing: HCA stock down 8% this year. Transferred 75% of his HCA holdings to his children and grandchildren. "If I died tomorrow, they won't pay any taxes." Brother Bill Frist is U.S. Senate majority leader.

John Brown

$960 million

Stryker. *Kalamazoo, Mich.*

70. Married, 2 children

Hired hand from small Tennessee town t over medical supply company founde 1941 by Homer Stryker. Turned niche m ufacturer of hospital beds into domin medical device manufacturer. Sales: $3.6 lion. Recent acquisition of SpineCore, ma of artificial lumbar and cervical discs, sho provide the backbone for continued grov

Philip Frost

$850 million

Ivax Corp. *Miami, Fla.*

67. Married

French literature major at U. Pennsylva medical degree from Albert Einstein Col of Medicine. Practiced, taught dermatolog Miami; invented disposable biopsy de 1971. Took over Key Pharmaceuticals; sol Schering-Plough 1986 to start generic-d maker Ivax Corp. Now developing proprie drugs for asthma, emphysema. Subsidiary Diagnostics manufactures medical testing Avid gardener serves as governor of Ameri Stock Exchange. Wife, Patricia, chairs Nati Board of Smithsonian Institution.

Biotech investor **ALFRED MANN** feels a healthier since Boston Scientific agreed buy his Advanced Bionics for $4.1 billion.

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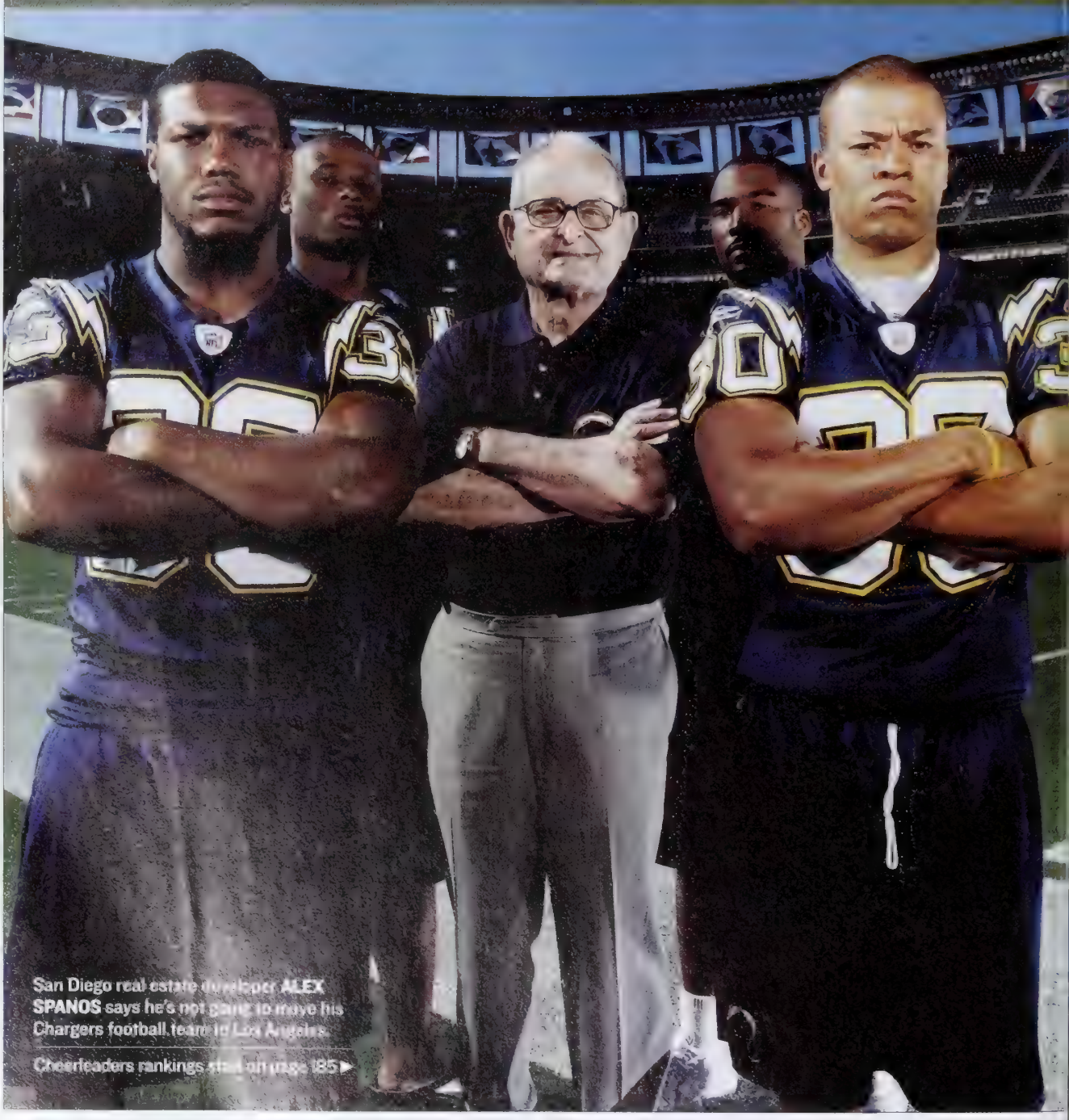
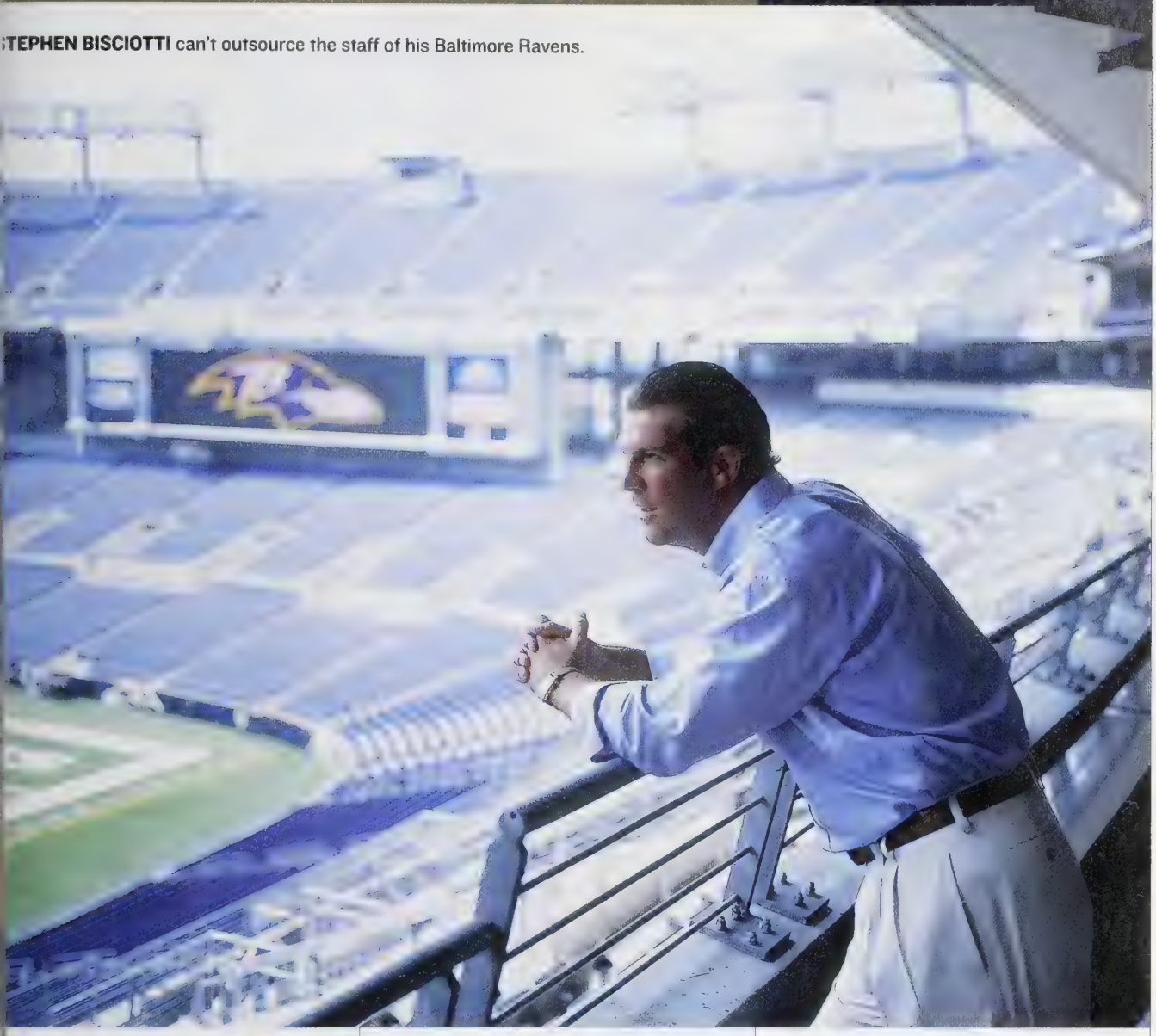


San Diego real estate developer **ALEX SPANOS** says he's not going to move his Chargers football team to Los Angeles.

Cheerleaders rankings start on page 185 ▶



TEPHEN BISCIOTTI can't outsource the staff of his Baltimore Ravens.

icky Arison

.3 billion

rnival Cruises. *Bal Harbour, Fla.*

Married, 2 children

rnival Corp., world's largest cruise erator after acquiring P&O Princess ises last year, was recently buoyed by overing travel industry. Profits up 60% he latest quarter. Now looking for big- rebound courtside. Owner of Miami at basketball team, which, in its 16- r history, has yet to reach the NBA fi- s, made blockbuster trade for quille O'Neal in July. The cruise ship r celebrated the announcement with mpagne in Cannes, France.

Ann Walton Kroenke

$3 billion

Wal-Mart. *Columbia, Mo.*

54. Married, 2 children

E. Stanley Kroenke

$1.4 billion

Sports, real estate. *Columbia, Mo.*

57. Married, 2 children

Ann inherited big Wal-Mart stake from father, James (Bud) Walton (d. 1995), who co-founded retail chain with brother Sam. Husband, Stan, a real estate developer, including shopping centers anchored by Wal-Mart stores. Also owns more than 1 million acres of ranch land. Sports nut Stan owns stake in pro football's St. Louis Rams, basketball's Denver Nuggets and hockey's Colorado Avalanche.

William Davidson

$2.8 billion

Glass. *Bloomfield Hills, Mich.*

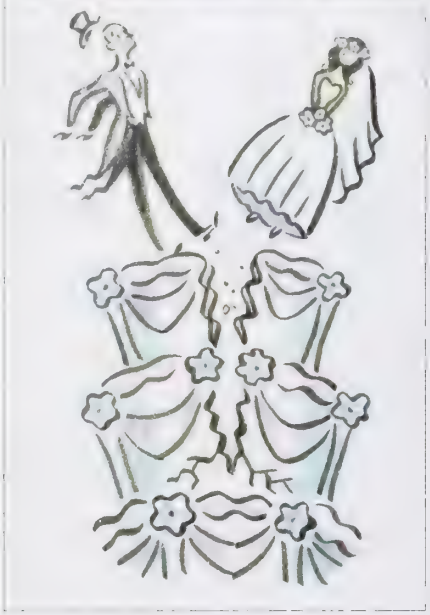
81. Divorced, remarried; 2 children

Low-key glass manufacturer couldn't avoid the spotlight in June: his Detroit Pistons crowned as pro basketball's champions 8 days after his Tampa Bay Lightning won hockey's Stanley Cup. Also owner of the Detroit Shock, reigning champs in women's basketball league. Erstwhile lawyer joined uncle's glass firm 1955; made president 2 years later. Company now

BY THE NUMBERS

The average number of divorces for members of The Forbes 400:

1.3 times



major supplier of glass to auto industry, world's largest maker of mirrors. Estimated sales: $4 billion.

Carl Pohlad

$2.3 billion

Banking. *Minneapolis.*

89. Widowed, 3 children

Owner of moneylosing Minnesota Twins baseball franchise looks likely to get his team into the playoffs, but efforts to land new publicly funded stadium ongoing. Former used-car salesman took charge of brother-in-law's bank in 1955, sold in 2001 to Wells Fargo for $1 billion. Current investments include airlines, Pepsi bottling. Bought Twins in 1984, won 2 World Series, now struggling to stay competitive in small market.

Glen Taylor

$1.9 billion

Printing. *Mankato, Minn.*

63. Divorced, 5 children

Turned $2 million investment into $1.5 billion (sales) Taylor Corp. printing empire: wedding invites, stationery, magazines. Still involved but stepped down as chief executive in 2001; concentrates on philanthropy, new agribusiness selling liquefied eggs to food processors. Owner of pro basketball's Minnesota Timberwolves. Still considering deal to buy pro football's Minnesota Vikings from Red McCombs *(see)*: "Red's got a price and I've got a price. I can be patient. That's one of my God-given talents."

Carl Lindner & family

$1. 8 billion

Investments. *Cincinnati, Ohio.*

85. Married, 3 children

Dropped out of high school at age 14 to help run family's dairy business during Depression. Opened ice cream store with siblings 1940; built 220-store United Dairy Farmers chain. Diversified into finance with small S&Ls. Today American Financial Group: big stakes in insurance, banking. Longtime co-owner of pro baseball's Cincinnati Reds donates tickets to local school kids, civic workers.

H. Wayne Huizenga

$1.8 billion

Entrepreneur. *Fort Lauderdale, Fla.*

66. Divorced, remarried; 4 children

College dropout bought used garbage truck in 1962, transformed small trash-hauling operation into waste-management behemoth WMX. Resigned 1984. Bought 19-store video-rental chain Blockbuster 1987, sold to Viacom for $8.4 billion 7 years later. Back to trash: bought Republic Waste 1995 for $27 million; Republic Services stake now worth $40 million. Also investments in Auto-Nation (car dealerships), Boca Resorts (lodging). Sold stake in Extended Stay America to Stephen Schwarzman's *(see)* Blackstone Group for $185 million in March. Sold Florida Marlins 2 years after winning 1997 World Series; still owns pro football's Miami Dolphins.

Robert D. McLane Jr.

$1.3 billion

Wal-Mart, logistics. *Temple, Tex.*

68. Married, 2 children

Sold grocery distribution business to tennis partner Sam Walton for cash and Wal-Mart stock in 1990. Bought pro baseball's Houston Astros. Moved team into new stadium 20 renamed Minute Maid Park (forme Enron Field); favorable lease lets team k most of the revenue. Other ventures fo on logistics: exporting U.S. goods, revamp transportation for the military. Chairmar Baylor University's board of regents.

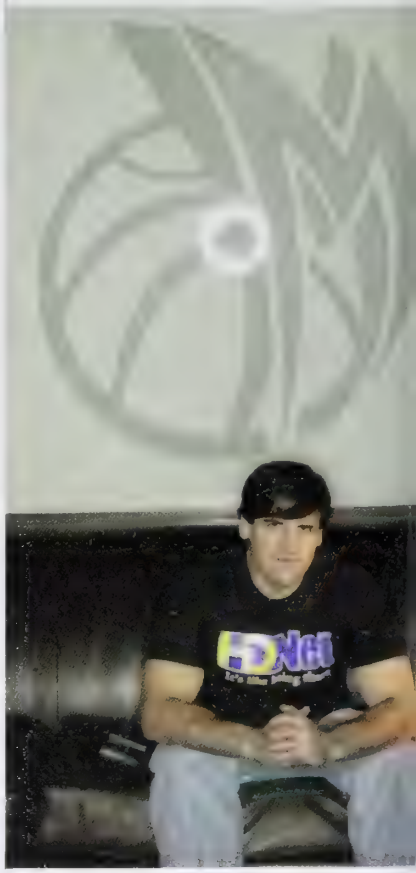
Mark Cuban

$1.3 billion

Broadcast.com. *Dallas.*

46. Married, 1 child

Clash of the egos as he pits his reality show, *The Benefactor*, against Don Trump's. Trump may have the ratings, Cuban gets more screen handing out ch lenges, deciding who merits a $1 million ward. Sold Internet broadcasting ou Broadcast.com to Yahoo for $5.7 billi shrewdly collared Yahoo stock before t bust. Used windfall to buy Dallas mansi Gulfstream jet, pro basketball's Dallas M



MARK CUBAN kept enough of his Interne windfall to buy a Gulfstream jet, the Dalla Mavericks and a fledgling cable network.

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ericks. Passionate owner eschews tinted-glass luxury box for courtside seats; racked up $1 million in fines for verbally abusing game officials, among other things. With Todd Wagner *(see)* invested in 2929 Entertainment: high-definition television network HDNet, art-house chain Landmark Theaters and Rysher Entertainment, which owns real estate. Perhaps the only member of The Forbes 400 to blog (www.blogmaverick.com).

Norma Lerner

$1.2 billion
Inheritance. *Cleveland.*
68. Widowed, 2 children

Nancy Lerner Beck

$1.2 billion
Inheritance. *Cleveland.*
44. Married, 5 children

Randolph Lerner

$1.2 billion
Inheritance. *Cleveland.*
42. Married, 4 children
Widow and children of Al Lerner (d. 2002), Brooklyn-born immigrant's son who built credit card giant MBNA, brought NFL back to Cleveland. Family still holds major stake in MBNA, though much reduced by taxman. Son, Randy, chairman of MBNA, took over football's Cleveland Browns after father's death from cancer; Norma served briefly on MBNA board. Nancy, a former prosecuting attorney, now active in family's real estate investments. Family keeps low profile, but active in educational, medical philanthropy in Cleveland area.

Billy Joe McCombs

$1.2 billion
Radio, cars, oil. *San Antonio, Tex.*
76. Married, 3 children
"Red" owns big stake in Clear Channel Communications, the radio outfit started with Lowry Mays *(see)* in 1972. Also owns Toyota, Ford car dealerships, investments in oil, real estate. Looking to sell his Minnesota Vikings pro football team. Showing interest: printing mogul Glen Taylor *(see)*. Took 25% stake in Internet guitar merchants J.R. Beck, now out of business. Fighting environmentalists for right to develop Colorado wilderness area into luxury ski resort.

MALCOLM GLAZER had reason to cheer when his Tampa Bay Bucs won the Super Bowl.

Alex Spanos

$1.1 billion
Real Estate. *Stockton, Calif.*
81. Married, 4 children
Recently built largest top-class office space in California's San Joaquin County. Helipad on top for Spanos' use. Son Dean heads pro football's San Diego Chargers. Trying to win a deal with city officials for a new stadium; pledged $200 million to make it happen. New lease with San Diego dispels rumors that he's moving team to Los Angeles.

William Clay Ford

$1 billion
Ford Motor Co.
Grosse Pointe Shores, Mich.
79. Married, 4 children
Ford family patriarch brought company back under family control after installing son Bill Jr. as Ford chief in 2001. Brought back profits, but stock still lagging. Next-generation Ford bucking Motor City tradition with plans for hybrid cars, push for higher gas tax. But hasn't completely abandoned the past: introducing new version of company's classic Mustang. I Sr., grandson of Henry Ford, spends reti ment watching his Detroit Lions pro footb team playing in new $350 million Ford Fie

Malcolm Glazer

$1 billion
Shopping malls, investments.
Palm Beach, Fla.
76. Married, 6 children
Shopping mall magnate, owner of pro fo ball's 2003 Super Bowl champs Tampa B Buccaneers spent the past year increasing sta in England's premier soccer club, Manches United; owns some 19%, prompting specu tion he's looking to take over team. Roches native worked in father's watch shop at age handed reins at 15. Invested in mobile-ho parks, restaurants, real estate. Major stal holder in Zapata, onetime oil-and-gas co pany, now a holding company. Maker of a bag fabric and marine protein for animal fe

Jerral Jones

$1 billion
Dallas Cowboys, oil & gas. *Dallas.*
61. Married, 3 children
Played football at the University

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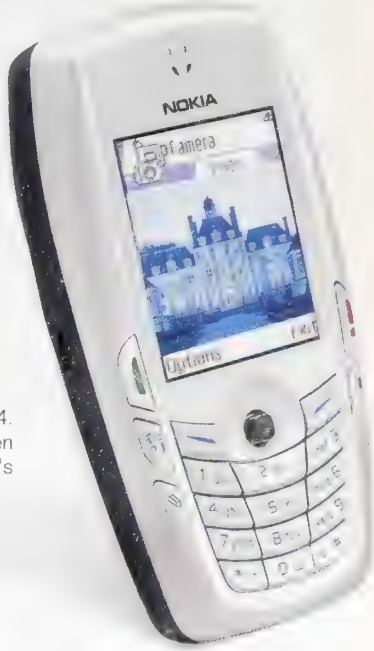

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Arkansas. Joined father's insurance business 1965 after getting M.B.A. Bought pro football's Dallas Cowboys and stadium for $140 million in 1989. Continues to invest in real estate, oil and gas, but "95% of my time is with the Dallas Cowboys. We are going to turn around on the field." Best move: landing coach Bill Parcells, who led the team to the playoffs last year.

Michael Heisley

$850 million
Manufacturing.
St. Charles, Ill.
67. Married, 5 children
Former computer salesman wanted to run his own business. Sold house for $150,000, borrowed another $10 million, bought Conco, maker of sewer and drain equipment. Margins not important: borrows against cash flow to buy the next company, usually near-bankrupt Rust Belt manufacturers. Today privately held Heico's sales exceed $2 billion, from some 40 companies. Recent purchases: telecom-switch vendor CopperCom, bankrupt steelmaker Ivaco. Owner pro basketball's Memphis Grizzlies.

Arturo Moreno

$850 million
Billboards. *Phoenix.*
58. Married, 3 children

William Levine

$750 million
Billboards. *Phoenix.*
72. Widowed, remarried; 3 children
Levine started Outdoor Systems in 1980, placing billboards and ads in bus stations. Vietnam Vet Moreno left executive position at advertising firm to join Levine in 1984. Duo took company public in 1996, sold to Infinity Broadcasting in 1999 for $8.7 billion in stock (now Viacom shares). Moreno bought baseball's Anaheim Angels from Disney in 2003 for $184 million; donates to Phoenix Symphony, Boys & Girls Clubs. Levine investing in real estate: recently bought 1,800 acres near Mesa, Ariz.

Stephen Bisciotti

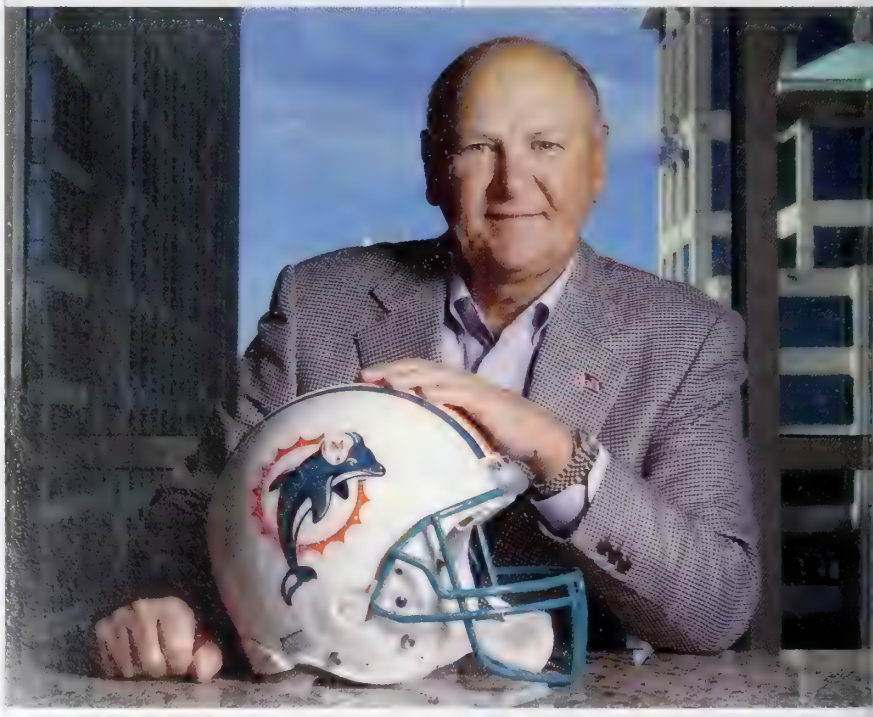
$850 million
Outsourcing, football.
Severna Park, Md.
44. Married, 2 children
Longtime Maryland resident spent summers in high school building piers outside of Baltimore. Founded Aerotek at age 23 with $3,500 to provide engineers to aerospace industry. Now owns significant stake in job outsourcer Allegis Group; nation's third-largest staffing firm places medical, human resources, accounting, call center workers. Estimated sales: $4 billion. In July completed $600 million deal to purchase Baltimore Ravens football franchise from Art Modell; served 4 years as minority owner, now owns 99%. Known as "Shots" in high school, still owns first car, a 1969 white convertible MGB. Avid University of Maryland basketball fan shuttles friends to annual Atlantic Coast Conference championship via private jet.

Michael Ilitch

$750 million
Pizza. *Detroit.*
75. Married, 7 children
Former shortstop for pro baseball's Detroit Tigers farm team bought the franchise 1992, thanks to a fortune made in piz Opened first Little Caesars pizza joint in I troit in 1959; 40 stores by 1967. Made mous "pizza pizza" 2-for-1 deal, but sa began to sag in late Nineties. Ditched fro cheese in favor of fresh, revamped store sign; double-digit sales increases over past 2 years. Fans would appreciate wo ing some of that same magic on the woe Tigers, who haven't made the postseas since 1987. Also owns pro hockey's Det Red Wings, winner of 3 Stanley Cup cha pionships in 7 years.

John Jay Moores

$750 million
Software. *San Diego.*
60. Married, 4 children
Former head of software maker Peregr Systems doing just fine: sold more th $600 million of stock before firm's c lapse. Latest effort: rejuvenating neighborhoods that surround Petco s dium, the new home of his San Die Padres baseball team. Developed the $1 million Omni hotel-condominium co plex in downtown area, set to open spring 2005.



WAYNE HUIZENGA sold baseball's Florida Marlins, but he's held on to football's Dolphins

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Carl Icahn

$7.6 billion

Leveraged buyouts. *New York City.*
68. Divorced, remarried; 2 children

Famed 1980s corporate takeover specialist grew up middle-class in NYC's Queens; lawyer father, mom taught school. Princeton grad attended medical school; dropped out after 2 years. Joined army, then Wall Street. Borrowed to buy NYSE seat 1968; bought firms, forced managers to improve, buy him out or spin off at profit. Scored big in 1980s with takeovers of Texaco, USX, TWA. Wrestled telecom XO Communications from Ted Forstmann 2002; still chairman, though stock down 42% over past year. Now preparing to bring auto parts supplier Federal-Mogul out of bankruptcy; received regulatory permission to buy stakes in Kodak, drug company Mylan Laboratories. Other stakes include ImClone, National Energy Group.

Eli Broad

$6 billion

Investments. *Los Angeles.*
71. Married, 2 children

Son of Lithuanian immigrants bought first piece of real estate at age 20. Cofounded Kaufman & Broad with $25,000. Became one of nation's biggest home builders supplying parents of baby boomers with affordable housing. Bought Sun Life Insurance 1971; renamed SunAmerica, focused on retirement market. Sold to American International Group in 1998 for $18 billion. Last year led push to save Walt Disney Concert Hall. Big arts collector, benefactor: recently gave $60 million to the Los Angeles County Museum of Art.

Kirk Kerkorian

$5.8 billion

Investments, casinos.
Las Vegas; Los Angeles.
87. Thrice divorced, 2 children

Low-key investor hit jackpot with $7.9 billion takeover of Mandalay Bay Resorts in June. MGM Mirage stake now worth $3.4 billion. Former World War II pilot got start selling Trans International Airlines for $104 million profit in the 1960s. Invested proceeds in Vegas: acquired Flamingo hotel 1967, built International hotel 1969. Sold both properties to Hilton Hotels in 1970. Built first MGM Grand (now Bally's), opened second incarnation 1993. Bought Steve Wynn's *(see)* Mirage Resorts for $6.4 billion in 2000. Longtime love affair with MGM movie studio appears to be coming to an end: takeover negotiations with Sony heating up. Originally purchased studio 1970; sold to Ted Turner *(see)* 1986, bought back months later. Sold again 1990. Picked up a third time 1996. Personally netted $1 billion when studio paid massive $8 dividend to investors in M Continues to push lawsuit against Daiml Chrysler over 1998 merger; testified Delaware court in December. DCX sha holders now accusing Kerkorian of insi trading.

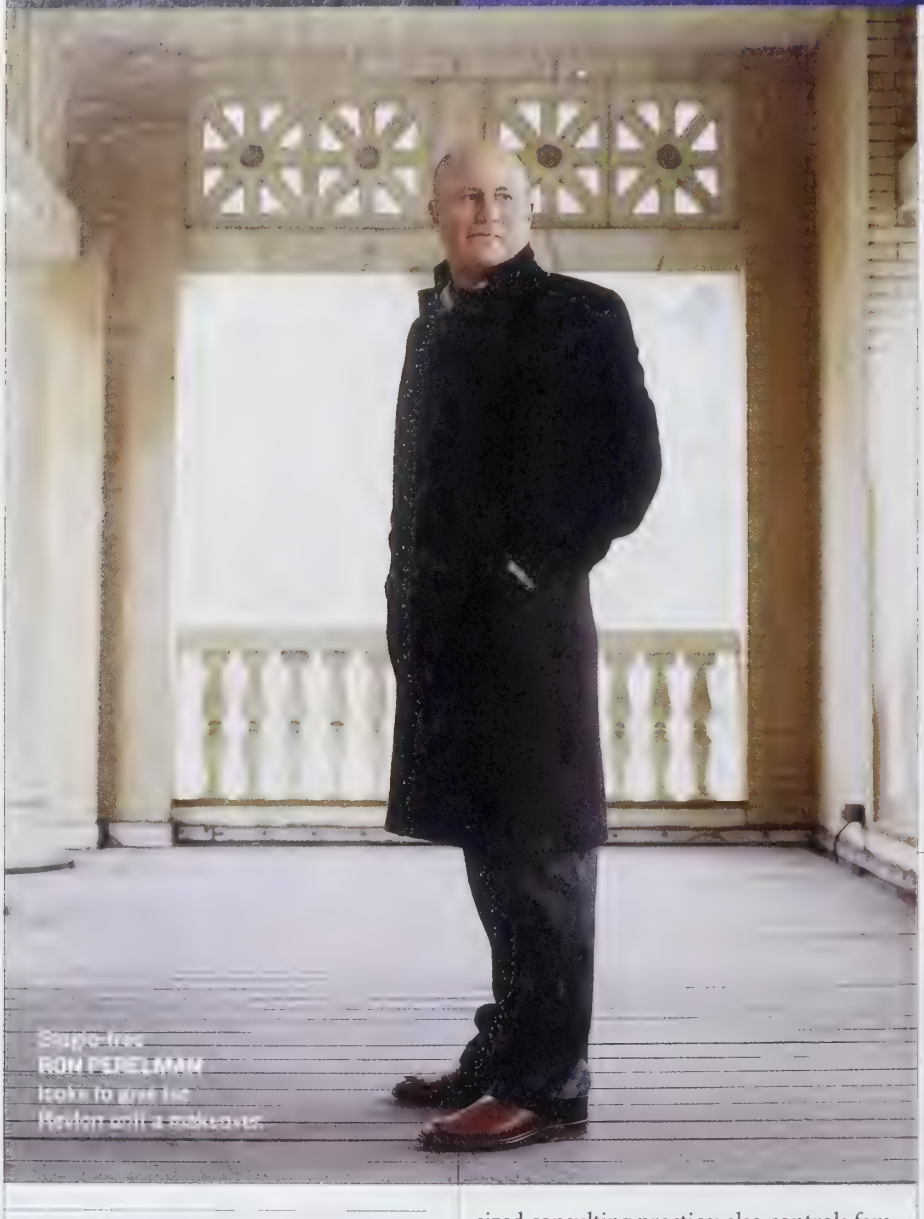
Ronald Perelman

$4.2 billion

Leveraged buyouts. *New York City.*
61. Thrice divorced, remarried; 6 childre

Leveraged-buyout king applying extre makeover to Revlon. Announced mass stock-for-bonds swap in March, reduc company's debt burden by $900 milli Wharton grad got start helping father r family's Philadelphia metal-fabricating bu ness. Bought $1.9 million stake in a jewe distributor 1978; built into conglomer MacAndrews & Forbes using high-yi debt from Drexel Burnham. Creat moneymaking machine: buy undervalu assets with leverage, divest all but cash co use money to bag bigger companies. M lucrative deal: selling Golden State Banco to Citigroup in 2002 for $6 billion; sta now worth $1.7 billion. Other investmer Scientific Games, Panavision. Married to tress Ellen Barkin, good friends with roc Jon Bon Jovi. Onetime cigar enthusi rarely seen without a stogie in tow gave smoking in 2002.

ERALD J. FORD rustled up a Texas-size rtune when he sold Golden State Bancorp Citigroup for $6 billion.



Stagio-free
RON PERELMAN
looks to give his
Revlon unit a makeover.

H. Ross Perot & family

$4.2 billion

Computer services, real estate. *Dallas.*
74. Married, 5 children

Former IBM salesman founded Electronic Data Systems 1962, sold to General Motors for $2.5 billion in 1984. Parted ways with GM, founded information services firm Perot Systems 1988. Stepped down to concentrate on politics in 1992; made 2 unsuccessful bids for presidency with dire warning that free-trade agreements would create "giant sucking sound" as jobs moved abroad. Own company joining the chorus, adding low-level tech jobs at subsidiary in India. Son Ross Jr. took over company in 2000, emphasized consulting practice; also controls family's considerable real estate holdings.

Lester Crown & family

$3.6 billion

Investments. *Wilmette, Ill.*
79. Married, 7 children

Son of Chicago financier Henry Crown (d. 1990), who created Material Service with 2 brothers in 1919, merged with General Dynamics 1959. Still holds big stake in GD, stock in Maytag, Hilton Hotels, Alltel. Dedicates time to solving global problems: chairs the Chicago Foreign Relations Council, sits on board of trustees of Aspen Institute.

Preston R. Tisch

$3 billion

Loews. *New York City.*
78. Married, 3 children

Wilma S. Tisch

$1.5 billion

NEW **Loews.** *New York City.*
78. Widowed, 4 children

Surviving brother and widow of famed vestor Laurence Tisch (d. 2003). Brothers start with New Jersey hotel in 1946; la owned the Drake, Belmont Plaza, Regen Took control of Loews Theatres 1959, div sified interests now include insurance (C Financial), watches (Bulova), oil drilli (Diamond Offshore Drilling), tobac (Lorillard). Larry long known for bear pessimism; Preston's son Jonathan now helm, sees brighter future. Preston co-ow New York Giants pro football franchi Family philanthropy: donations to NY alone exceed $50 million.

Henry Hillman

$2.8 billion

Industrialist, venture capitalist. *Pittsbur*
85. Married, 4 children

Son of Pittsburgh steel mogul John Hartw Hillman Jr., industrialist who built Pit burgh Coke & Chemical. Henry earn geology degree from Princeton, joined ther's company, took control in 19 Changed focus of investments from smo stack industries to real estate, venture capi Early backer of tech prodigy Kleiner Perk and buyout kings Kohlberg Kravis Rober

Leonard Blavatnik

$2.4 billion

NEW **Oil, coal, real estate.** *New York City.*
46. Married

Immigrated to the U.S. from Russia at age with family; worked way through colle Founded private equity firm Access Industr 1986. Four years later formed investment sh Renova with school friend Viktor Vekselbe acquired stakes in newly privatized Russi companies. Established informal 3-way pa

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nership among Access, Renova and Alfa Group, run by Russian billionaire Mikhail Fridman. Trio, under AAR moniker, owned controlling stake in Tyumen Oil Company; formed TNK-BP, Russia's third-largest oil company, in joint deal with British Petroleum. Other investments include controlling stake in Siberian-Urals Aluminum, coal mines, real estate, power company in Kazakhstan.

Clemmie Dixon Spangler Jr.

$2.2 billion

Investments. *Charlotte, N.C.*

72. Married, 2 children

Harvard M.B.A. restored failing Bank of North Carolina before merging with NCNB 1982. Renamed NationsBank, now Bank of America. Spangler's 32 million shares worth $1.4 billion; wife sits on board of directors. Savvy investor bought 2 million shares of RJR before 1989 KKR buyout. Other family holdings: National Gypsum (drywall), Golden Eagle Industries (construction). Daughter Anna runs venture capital firm Wakefield Group. Farmer's son served 11 years as president of University of North Carolina. Tar Heel's longtime hobby: grandfather clocks. "I'm interested in fixing broken clocks, not collecting clocks. The brass is more interesting than the wood."

Herb Allen

$2 billion

Investment banking. *New York City.*

64. Twice divorced, 4 children

Low-profile investment bank Allen & Co. has had a stellar run: claims to have had returns of more than 40% a year since the mid-1980s. Firm has long tradition of forging lucrative relationships with corporate leaders. Host of annual retreat for media bigwigs in Sun Valley, Idaho helped spawn some high-profile mergers like Disney and ABC. This year's guests included many of The Forbes 400: Bill Gates, Barry Diller, Rupert Murdoch, Meg Whitman. Board member and large investor in Coca-Cola travels everywhere with Donnie, his black Labrador.

Harold Simmons

$2 billion

Investments. *Dallas.*

73. Twice divorced, remarried; 6 children

Schoolteacher's son got start as bank examiner, bought Dallas drugstore for $5,000 in 1961. Built into 100-store chain; sold to Eckerd for $50 million 12 years later. Went on shopping spree: chemicals, oil services, timber, sugar, fast food. Cached most of his holdings in publicly traded Valhi: metals, titanium dioxide, waste management. Legislation allowing burial of low-level nuclear waste in western Texas could be boon to business.

Roland Arnall

$2 billion

NEW **Mortgage banking.** *Holmby Hills, Calif.*

65. Divorced, remarried

Secretive founder of mortgage lend Ameriquest started company as Long Bea Savings & Loan 1980. Now offers full-servi lending. Arnall also invests in oil and gas, i surance and real estate. Retail loans: $40 b lion a year. Longtime political donor giv on both sides of the aisle: contributed both Arnold Schwarzenegger and form Calif. governor Gray Davis, who officiated

Banker **VICTOR GALÁN** is the richest U.S. citizen in Puerto Rico.

9-11am:
Have brunch with editor for upcoming
article on next year's Spring/Summer collection

1pm-3pm:
Drop by designers luncheon to discuss
tomorrow's charity fashion show

4pm-6pm:
Prepare a surprise candlelight dinner for two
to celebrate husband's birthday

or

)-5:30pm: Watch 2005 Paris
ıg/Summer Collection on TV in
aration for next week's article)

Life's

MICHAEL MILKEN supports all things educational, from toys to day care centers.

his wedding; backing Bush campaign. Pet charities: wildlife protection, education and human rights. Spends downtime on $46 million, 650-acre Aspen, Colo. compound.

Richard Rainwater

$2 billion

Real estate, energy, insurance. *Fort Worth, Tex.*

60. Married, 3 children

Stanford business grad got start managing Bass family's $50 million portfolio in 1970; lost money first 2 years. Acquired large stake in Disney 1984, went solo 2 years later. Cofounded Columbia Hospital 1987, bought Hospital Corporation of America 1994. Sold HCA stake last year, invested proceeds in Tenet Healthcare. Recently shedding oil and gas assets for additional liquidity; says he's on the prowl for other buying opportunities. Purchased 3 million shares of Global Crossing in May, now owns 7.5% of beleaguered telecom. "I'm doing better than I've ever done. I'm happy, healthy, wealthy and wise, and that's about it." Wife, Darla Moore, a dealmaker in her own right, managing sizable assets since 1994.

Peter Kellogg

$1.8 billion

Investments. *Short Hills, N.J.*

62. Married, 3 children (1 deceased)

Father, James, joined Wall Street specialist firm in 1945; Peter joined as director in 1973. Made money on the side in the 1990s investing in Alex. Brown, National Discount Brokers. Made a killing selling Spear, Leeds & Kellogg to Goldman Sachs in 2000 for $5.5 billion. Still believed to own sizable Goldman stake. Other investments in Presstek, Mercer International, MFC Bancorp. Accused by NASD last year of engaging in fraudulent "wash and matched trades" to avoid taxes; cleared of all charges in August.

Dennis Washington

$1.8 billion

Investments. *Missoula, Mont.*

70. Married, 2 children

Expanded industrial empire by saving Morrison Knudsen—builder of San Francisco Bay Bridge, Hoover Dam—from bankruptcy 1996. Renamed Washington Group International, filed Chapter 11. Restructured, took public 2 years later; today sales top $2.5 billion, 27,000 employees. Diversified: electricity, nuclear services, homeland security; recently picked up engineering and mining contracts in Iraq. Owns Canada's largest tug and barge company. Longtime Republican celebrated 70th birthday with 3-day party; guests included Oprah Winfrey *(see)*. Owns island with golf course in British Columbia. Also spends time overhauling wrecked 204-foot yacht.

Franklin Otis Booth Jr.

$1.7 billion

Berkshire Hathaway. *Los Angeles.*

81. Divorced, remarried; 6 children

Great-grandson of Times Mirror Co. founder Harrison Gray Otis. Earned M.B.A and engineering degrees from Stanford, then briefly worked for the *Los Angeles Mirror*. Partnered with Charles Munger *(see)* on small real estate deal; introduced to Warren Buffett 19 Invested $1 million in fledgling Berksh Hathaway. Now holds 17,700 shares wo $1.5 billion. Also owns Otis Orchards, la indie orange grower. Avid fisherman flies own Learjet; relaxes on 4,000-acre cattle ran

David Murdock

$1.7 billion

Investments. *Los Angeles.*

81. Thrice divorced, widowed; 3 children (1 deceased)

Traveling salesman's son dropped out high school in 9th grade. Moved to Detr after World War II, borrowed $1,800 buy diner, sold for modest profit. Turn to building homes in Arizona; lost most it in real estate crash of 1964. Moved Los Angeles, bought more property. Th leveraged buyouts: Dole Food, Hawai real estate giant Castle & Cooke. Pron nent GOP fundraiser also holds stake Pacific Holdings, conglomerate that ow largest chassismaker in the U.S. Land contract to operate jet center at Los An les' Van Nuys Airport in July; deal repo edly delayed after losing bidders prov Murdoch donated to mayor's politi campaigns. Equine enthusiast keeps 4 Arabian horses on farm in California.

Thomas Pritzker

$1.7 billion

Hotels, investments. *Chicago.*

54. Married, 3 children

Penny Pritzker

$1.6 billion

NEW **Hotels, investments.** *Chicago*

45. Married, 2 children

James Pritzker

$1.5 billion

NEW **Hotels, investments.** *Chicago*

53. Divorced, 3 children

John A. Pritzker

$1.5 billion

NEW **Hotels, investments.** *San Francisco.*

51. Married, 3 children

(4:30pm: It looks like the 'Earthy Green look' will be back, as you start making the lobster salad)

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Linda Pritzker

$1.5 billion

NEW **Hotels, investments.** *St. Ignatius, Mont.*
50. Divorced, 3 children

Karen Pritzker

$1.5 billion

NEW **Hotels, investments.** *New Haven, Conn.*
46. Married, 4 children

Daniel Pritzker

$1.5 billion

NEW **Hotels, investments.** *Marin County, Calif.*
45. Married, 5 children

Anthony Pritzker

$1.5 billion

NEW **Hotels, investments.** *Los Angeles.*
43. Married, 4 children

Jean (Gigi) Pritzker

$1.5 billion

NEW **Hotels, investments.** *Chicago.*
42. Married, 3 children

Jay Robert (J.B.) Pritzker

$1.5 billion

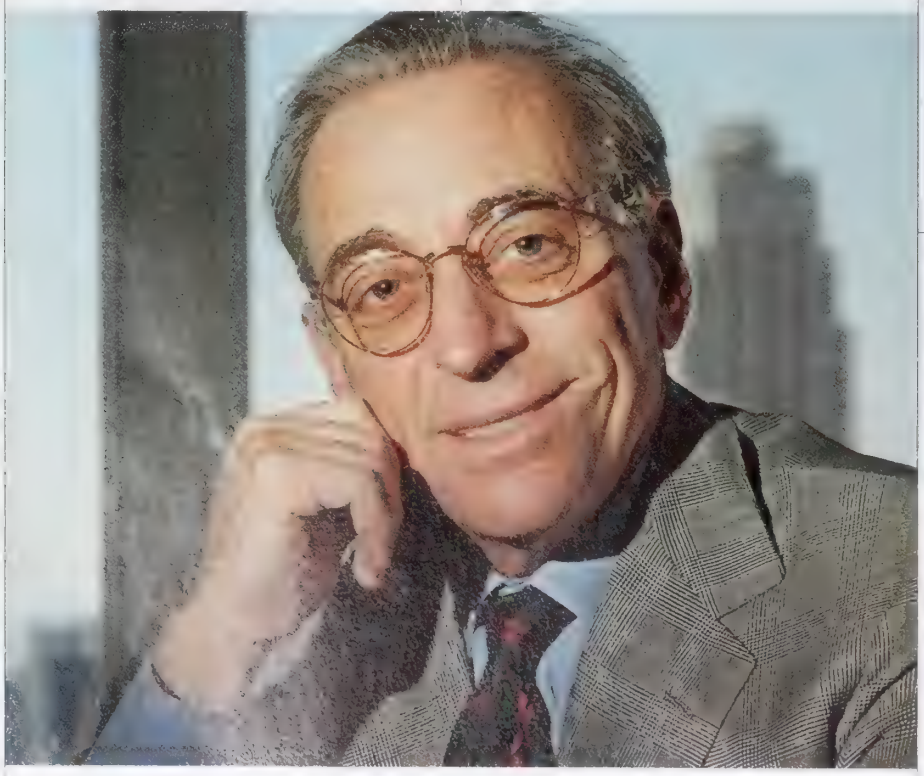
NEW **Hotels, investments.** *Evanston, Ill.*
39. Married, 2 children

Nicholas Pritzker

$1.2 billion

NEW **Hotels, investments.** *Chicago.*
60. Married, 4 children

Grandchildren and a nephew of A.N. Pritzker (d. 1986), who, with sons Jay (d. 1999) and Robert created industrial conglomerate Marmon (2003 sales: $5.5 billion) and hotel chain Hyatt (207 hotels worldwide). Plan to pass control of empire to Jay's son Tom, cousin Nick and niece Penny collapsed in 2001; family agreed to carve up empire 11 ways. Family drama includes Robert's two youngest children, Matthew and Liesel, living with his ex-wife. Liesel and Matthew filed suit in Chicago and the Bahamas, where family has offshore trusts. Trial as early as next year. Nonetheless, dynastic carve-up underway. Likely to include sales or initial public offerings of Marmon or Hyatt assets, may be near completion 5 years. Tom: chief executive of Pritzker ganization. Penny: chief of Hyatt's ser housing division. James: retired U.S. Ar colonel, founder of Pritzker Military M seum. John: runs private equity fund vesting in retailing, hospitality, enterta ment, resorts. Linda: psychoanalyst, polit activist. Tony: with brother, J.B., runs v ture capital fund, invests in technolo manufacturing. Karen: runs nonprofit e cational Web site Myhero.com. Daniel: G tarist, songwriter. Gigi: filmmaker. J.B.: vests with brother Tony. Nicholas: r Hyatt Development.



Though Burger King eluded him, **NELSON PELTZ** remains hungry for another deal.

Charles Munger

$1.6 billion

Investments. *Los Angeles.*
80. Divorced, remarried; 8 children

Less lauded, far less wealthy partner Warren Buffett, still plays integral role Berkshire Hathaway. Vice chairman si 1978, demands intense number-crunch analysis of investments. Met Buffett 1959; soon began investing in Berksh Other investments: substantial stakes Costco Wholesale (discount retail), D Journal (legal news), Price Legacy (real tate investments). Education enthusi funded new wing at Pasadena's Hunti ton Library; on board of Harvard-We lake School.

Gerald J. Ford

$1.4 billion

Banking. *Dallas.*
60. Divorced, remarried; 5 children

Farm-boy-turned-thrift-trader bou first bank in 1975 for $1.2 million, la sold for $80 million. Biggest windfall ca in 2002: sold California's Golden St Bancorp to Citigroup for $6 billion; p sonal stake now worth more than $1 b lion. Other investments include au finance company AmeriCredit, McMo Exploration oil and gas outfit. Own 140,000-acre cattle ranch in New Mexi home to 15 families. Spends idle time ing in his private jet to LA to shop for co boy hats.

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Ernest Rady

$1.3 billion

NEW **Investments.** *San Diego, Calif.*
67. Married, 3 children

Canadian native founded American Assets financial services and real estate firm in 1966. Later delved into insurance business; serves as chairman San Diego-based Insurance Company of the West. Most of wealth tied up in Westcorp, holding company for Western Financial Bank and WFS Financial, one of the nation's largest automobile finance companies. Plans to buy outstanding shares of WFS Financial's common stock by year-end. Former part-owner of pro baseball's San Diego Padres, recently donated $30 million to UC, San Diego. Trustee of Scripps Foundation of Medicine & Science, Salk Institute for Biological Sciences.

George Lindemann & family

$1.3 billion

Natural gas, media. *Palm Beach, Fla.*
68. Married, 3 children

Wharton grad made first fortune selling contact-lens-design company to Cooper Labs for $60 million in 1971. Acquired New Jersey cable licenses; sold Vision Cable for $220 million in 1982. Later built cell phone business Metro Mobile, sold to Bell Atlantic for $2.6 billion 1992. With family now holds 28% of natural gas distributor Southern Union, large stake in Verizon Communications. Family of equestrians: son Adam an avid polo player; daughter Sloan competes in jumping.

Richard Mellon Scaife

$1.2 billion

Inheritance. *Pittsburgh.*
71. Divorced, remarried; 3 children

Cordelia Scaife May

$825 million

Inheritance. *Ligonier, Pa.*
76. Divorced, widowed

Great-grandchildren of Richard Beatty Mellon, founder of T. Mellon & Sons, predecessor of Mellon Bank. Richard a philanthropist and publisher; controls conservative Pittsburgh *Tribune-Review* as well as radio stations in western Pennsylvania. Supports conservative institutions including Heritage Foundation. Investor in NewsMax, conservative news Web site and magazine that abandoned plans for public offering last year. Cordelia: low-key heiress long estranged from brother after he accused her late husband of corruption.

Erstwhile home builder ELI BROAD stands tall in the philanthropic world.

Kenneth Langone

$1.1 billion

Investments. *Sands Point, N.Y.*
69. Married, 3 children

Queens-born investment banker made small fortune taking Ross Perot's Electronic Data Systems public in 1968. Made large fortune providing seed money for Home Depot. Landed in spotlight as defendant in N.Y. Attorney General Eliot Spitzer's lawsuit over pay package awarded to former NYSE chief Richard Grasso. Staunchly defends his role as chair of Big Board's compensation committee; penned withering editorial against Spitzer, NYSE board member and Goldman Sachs Chief Hank Paulson. Refuses to settle; clai case will never come to trial.

David Gottesman

$1 billion

NEW **Investments.** *Rye, N.Y.*
78. Married, 3 children

Early investor in Warren Buffett's Berkshi Hathaway flew under the radar until joini board in 2003. Harvard M.B.A. founded i vestment advisory firm First Manhattan 1964. Sits on board of American Museum Natural History.

Nelson Peltz

$1 billion

Leveraged buyouts. *Bedford, N.Y.*
62. Divorced, remarried; 10 children

With partner, Peter May, runs publicly trad buyout firm Triarc. Wharton dropout ma famous with Michael Milken-assisted acq sitions of Triangle Industries 1983, Nation Can 1985. Sold conglomerate 5 years later f

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$830 million profit. More success: bought Snapple in 1997 for $300 million from Quaker Oats, sold 3 years later for $1.5 billion. Arby's owner lost bid for Burger King in 2002, remains on the prowl for new deals with $700 million war chest.

Michael Milken

$1 billion

Investments. *Los Angeles.*
58. Married, 3 children

Junk-bond guru joined Drexel Burnham Lambert in 1969; fueled 1980s leveraged buyout boom. Salary, bonus $550 million in 1986 alone. Wharton M.B.A. ratted out by arbitrager Ivan Boesky; pled guilty to 6 counts of securities fraud. Paid $900 million settlement to government, litigators, creditors; served 22 months in prison. Dedicated philanthropist and prostate cancer survivor created Center for Accelerating Medical Solutions, a Washington, D.C. think tank. Big backer of education: $25,000 checks to 100 exceptional teachers and principals every year. Holding company Knowledge Universe has day care centers (Knowledge Universe Learning Corp.), private schools (Nobel Learning Communities), educational toys (LeapFrog).

Wilbur Ross

$1 billion

NEW **Leveraged buyouts.**
New York City; Palm Beach, Fla.
66. Twice divorced, 2 children

Lawyer's son started out parking cars at racetrack in Monmouth, N.J. Dreamed of being a writer; worked on literary magazine at Yale. Gave up after fiction class required writing 500 words a day; feared running out of material. Took summer job on Wall Street, refined research and analysis skills. Landed job at Rothschild 1976; as bankruptcy specialist cleaned up messes left by Drexel Burnham junk-bond financings. Began running private equity fund 1997, struck out on own 3 years later. Founded WL Ross & Co.: buys companies in tired industries like coal, steel, textiles; cleans up balance sheet, improves management, sells for profit quickly. Today manages about $3 billion in 7 private equity funds, 2 hedge funds. WLR Recovery Fund II up 360% since 2002 inception.

The guest list to **HERB ALLEN**'s annual retreat in Sun Valley, Idaho reads like the index to The Forbes 400.

J. Christopher Flowers

$1 billion

NEW **Investments.** *New York City.*
46. Married, 2 children

Harvard grad got start as dealmaker for Goldman Sachs; partner 1988. Left to start J.C. Flowers & Co. buyout shop a year later. With Ripplewood Investments Chief Timothy Collins, bought Japanese bank Long Term Credit Bank of Japan in 2000; renamed Shinsei Bank, cut jobs, fixed balance sheet. Partners reaped $2.3 billion in February public offering. Holds 22% stake in financial services outfit Enstar. Avid chess player, enjoys boating, squash.

Samuel Wyly

$990 million

Investments. *Dallas, Tex.; Aspen, Colo.*
69. Twice divorced, remarried; 6 children

Sold Sterling Software to Computer Associates in 2000 for $4 billion; fighting company ever since. Lost proxy fight to oust chairman Charles Wang and 3 board members in wake of tumbling share price. Settled for $10 million; recently filed $1 billion lawsuit over excessive executive pay; called departure of CEO Sanjay Kumar a "hallelujah day," but company still mired in accounting scandal. One-time refinery investor now dabbling in other things green: family has 7 Toyota Prius insulated his Colorado ranch with old b jeans; director, largest stockholder of cle energy producer Green Mountain Ener Former chairman of Bonanza Steakhou also holds large stake in arts-and-crafts reta Michaels Stores.

Victor Galán

$800 million

NEW **Banking.** *San Juan, P.R.*
71. Married, 3 children

Born in Cuba, fled to Puerto Rico after Cas took power. Became U.S. citizen 19 Opened mortgage bank in 1972 with $25,0 added commercial banking to help fina mortgage loans. R&G Financial chief n richest U.S. citizen in Puerto Rico, due to financing boom, 75% home ownership th

Lowell Milken

$800 million

Investments. *Los Angeles.*
55. Married, 4 children

Younger brother of junk-bond king Mich Milken. UCLA Law School grad joi Drexel Burnham Lambert 1978; beca Michael's right-hand man. Avoided fra charges when brother pleaded guilty. N focuses on philanthropy, medical resear also chairs Heron International (prope development) and KU Education Co (early childhood development).

Jack Nash

$750 million

Investments. *New York City.*
75. Married, 2 children

Former chairman of Oppenheimer & Co. n lone head of investment outfit Odyssey Pa ners since death of longtime partner Le Levy in 2003. Fled Berlin with family 1941; tended City College of New York. Met Lev a trainee at Oppenheimer in 1951; manag partner 3 years later. Formed Odyssey w 1982 sale of Oppenheimer: $40 million of o cash, $75 million from investors. Funds n comprised almost exclusively of Nash's mo Trustee for New York Public Library a Mount Sinai Medical Center in NYC.

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Ty Warner

$5 billion

Beanie Babies. *Chicago.*

60. Single

Kalamazoo College dropout took job selling stuffed toys. Quit to bum around Italy. Returned home, began designing own line of stuffed Himalayan cats, other animals before creating Beanie Babies: understuffed toy animals affordably priced for the allowance set. Limited production runs spawned frenzied buying by adults who drove prices up to $12,000. Mania finally subsiding: toymaker's sales off sharply from their high, but Ty Inc. still immensely profitable. Reinvesting in real estate. Four Seasons hotels in New York City, Santa Barbara; Kona Village resort in Hawaii.

Jon Huntsman

$2.3 billion

Chemicals. *Salt Lake City, Utah.*

67. Married, 9 children

Rising oil prices putting the squeeze on profits, but unlikely to sidetrack expected initial public offering of Huntsman Corp., his giant chemical concern. Any sale will likely result in his departure from The Forbes 400. Says most of the proceeds will go to his cancer foundation: "I'll keep just enough shares to live on."

Herbert Kohler & family

$2.1 billion

Plumbing fixtures. *Kohler, Wis.*

65. Divorced, remarried; 3 children

Chrome and porcelain still turning to gold for third-generation chief of plumbing business started in 1873. With sister Ruth, controls estimated $3.2 billion-sales Kohler empire: toilets, sinks, furniture, cabinets, engines, generators. Also golf: owns Whistling Straits course on Lake Michigan, site of this year's PGA championship.

Steven Rales

$1.9 billion

Danaher Corp. *Washington, D.C.*

52. Divorced, remarried; 3 children

Mitchell Rales

$1.9 billion

Danaher Corp. *Washington, D.C.*

47. Divorced, remarried; 2 children

Brothers left father's real estate firm 1979, set up Equity Group Holdings; bought t small manufacturing companies: Chica Pneumatic Tool, Western Pacific Indu tries, Ammco Tools. Acquired 25% sta in near-bankrupt real estate investme trust, combined with manufacturing un to create Danaher (named after favor trout stream in Montana). Acquire revamped more than 3 dozen compani in 25 years.

Roger S. Penske

$1.7 billion

Cars. *Birmingham, Mich.*

67. Married, 5 children

Star racecar driver retired from racing 1965 at age 28. Worked for Alcoa; le bought Chevy dealership. Started Pens Corp. in 1969. Now controls over 2 dealerships in the U.S. and Europe; tru leasing business, auto parts manufa turer. Also chairman of United Au Group, nation's second-largest au dealer. Owns 2 Indy car teams, 3 Nasc teams; part-owner of Deer Valley s resort in Utah. In the driver's seat chairman of Detroit's host committee f the 2006 Super Bowl.

N HENDRICKS knows the
Cs of the building business.
s American Builders &
ntractors Supply is the
gest distributor of roofing
d siding supplies.

Donald Hall

$1.6 billion
Hallmark. *Mission Hills, Kans.*
76. Married, 3 children

Elizabeth Reid

$800 million
Hallmark. *Fort Worth, Tex.*
82. Divorced, 5 children

Barbara Marshall

$800 million
Hallmark. *Kansas City, Mo.*
80. Widowed, 3 children

Children of Joyce Hall (d. 1982), preacher's son who turned fuzzy feelings into hard cash after founding postcard manufacturer Hallmark in 1910. Now world's largest greeting-card company. Siblings own two-thirds of $4.3 billion (sales) company. Donald chairman; son, Don Jr., serves as CEO. Family active in Kansas City philanthropy: more than $50 million in donations to area children's hospital.

Imogene Powers Johnson

$1.5 billion
NEW **S.C. Johnson & Sons.** *Racine, Wis.*
74. Widowed, 4 children

S. Curtis Johnson

$1.5 billion
NEW **S.C. Johnson & Sons.** *Racine, Wis.*
49. Married

Helen Johnson-Leipold

$1.5 billion
NEW **S.C. Johnson & Sons.** *Racine, Wis.*
47. Married

H. Fisk Johnson

$1.5 billion
NEW **S.C. Johnson & Sons.** *Racine, W*
46. Married

Winnie Johnson-Marquart

$1.5 billion
NEW **S.C. Johnson & Sons.**
Virginia Beach, Va.
45. Married

Widow and children of Sam Curtis Joh son, who passed away in May. Sam e panded floor wax firm founded by gre grandfather in 1886 by introduci household cleaning staples (Glade, Pledg bug repellants (Off, Raid). Handed co pany over to fifth generation in 2000, b remained the public face through series folksy ads. Recent years spent discussing

Porcelain king HERB KOHLER made a splash in the golf world. His Whistling Straits resort hosted this year's PGA Championship.

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fight with alcoholism, making documentary film about troubled relationship with father. Sent all kids to alma mater Cornell University, then brought into family business. Fisk: chairman of S.C. Johnson. Curtis: oversees commercial markets division. Helen: heads up Johnson Outdoors. Winnie: part-time project coordinator. Family left indelible stamp on hometown of Racine, commissioning Frank Lloyd Wright to design corporate headquarters. Big backers of Cornell, Smithsonian Institution, Nature Conservancy, Racine Art Museum.

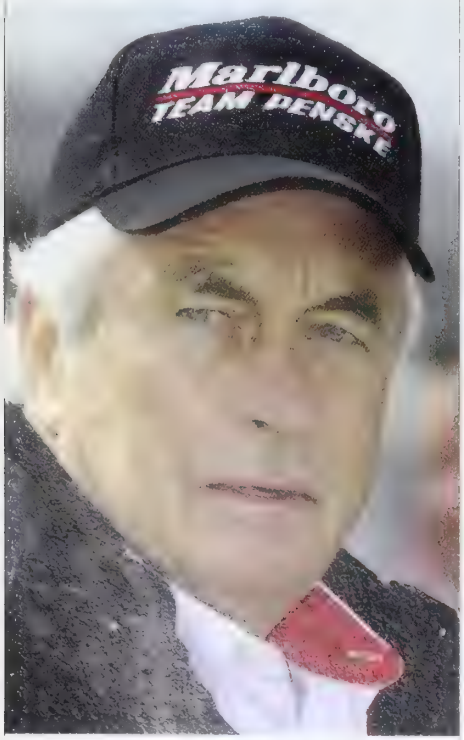
Charles Gates Jr.

$1.3 billion

Automotive products. *Denver, Colo.*

83. Widowed, 2 children

Father, Charles Sr., purchased Colorado Tire & Leather for $3,500 in 1911, began making tires and automotive hoses out of rubber. Charles Jr. inherited Gates Rubber Co. in 1961, became world's largest nontire rubber manufacturer. Sold majority stake to London-based Tomkins Plc. in 1996 for $1.1 billion in stock.



Most people know ROGER PENSKE as a fixture on the race circuit. But his real wealth derives from auto parts and dealerships.

Amar Bose

$1 billion

Bose. *Framingham, Mass.*

75. Married, 2 children

Fulbright scholar, Ph.D. in electrical engineering from MIT launched Bose Corp. in 1964. First contracts with NASA, U.S. military, but brand built on innovative loudspeaker design. Introduced first factory-installed car stereo system in 1982; today a major supplier for high-end automobiles (Porsche, Mercedes). Latest effort: developing a new car-suspension system.

John Orin Edson

$1 billion

Leisure craft. *Seattle.*

72. Divorced, remarried; 2 children

Boating enthusiast started first marine business in 1955. Built into Bayliner Marine Corp. Sold to Brunswick for $425 million in 1986. Reinvested in stocks, bonds, Arizona real estate. Partner in Westport Shipyard, builder of luxury yachts.

Richard Manoogian

$950 million

Masco. *Grosse Pointe Farms, Mich.*

68. Married, 3 children

Son of Armenian immigrant Alex, who began Detroit auto parts business Masco in 1929; later developed single-handle Delta faucet. Richard joined in 1958, became president a decade later, diversified by acquiring several low-tech, high-margin businesses in building and home-improvement products. Avid collector of 19th- and early-20th-century American art, which he loans to the White House and the National Gallery. "Art is my one main diversion from work."

Edward Watkins

$950 million

Security systems. *Concord, Mass.*

68. Divorced, remarried; 2 children

Reclusive grandson of E.G. Watkins, inventor of the punch time clock and founder of Simplex Time Recorder in 1897. Father joined Simplex 1928; Edward took over 1967, introduced security systems. Sold to Tyco $1.15 billion in cash 2001. During negot tions, was quoted as saying, "We will still integrally involved in the community." Co tributed $1 million to Coleman Scholarsl Fund (Bentley College). Dedicated campai contributor to Massachusetts Republic State Congressional Committee.

Lynne Pasculano & family

$920 million

Auto parts, candy. *New York City, Greenwich, Conn.*

63. Married, 2 children

Only child of Harry Lebensfeld (d. 199 who founded UIS 1945 with purchase small desk-manufacturing company. Slov acquired, turned around 20 small outf eventually sold most of them off. Last y sold auto parts division to Carlyle Group $800 million. Still controls New Engla Confectionery, maker of Necco Wafers, " Mine" Valentine hearts, Clark bars. Secret heiress not involved with management company; longtime volunteer for New Yo Public Library.

William Morean

$900 million

Jabil Circuit. *St. Petersburg, Fla.*

49. Divorced, remarried; 4 children

Father started computer parts company family's Detroit garage in 1966. After brief st as bush pilot in Alaska, returned to the lov 48, bought 51% stake for $100,000. Took pu lic in 1993. Stung by the tech slump, but lat turning the corner: profits up thanks to re cating manufacturing operations to Malays China. No longer oversees day-to-day ope tions, but still serves as chairman.

Leandro P. Rizzuto

$900 million

Manufacturing. *Sheridan, Wyo.*

66. Divorced, 4 children

Founded Conair with parents, using $100 i vestment and invention of hot-air hair rolle Massive growth after perfecting pistol-sha hair dryer. Took company public in 1972; p

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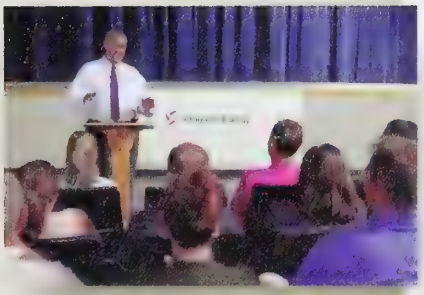

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Like many of The Forbes 400, **RICHARD MANOOGIAN** finds art a pleasant diversion.

vate 1995. Acquired kitchen appliance manufacturer Cuisinart in 1989. Other products include Waring, Interplak. Pleaded guilty to tax evasion charges in 2002, sentenced to 3 years in prison. Currently serving time in halfway house. Would probably prefer to spend the time at his 93-room, lavish Cuisinart Resort and Spa on Caribbean island of Anguilla.

Kenneth Hendricks

$850 million

NEW **Building supplies, real estate.** *Beloit,*

62. Married, 7 children

High school dropout, son of [illegible] contractor bought first building supplies distribution business in 1982. Increased ABC Supply to 280 locations. Today the largest supplier of roofing and siding materials to professional contractors in the U.S., with $1.8 billion in sales. Revitalizing company's hometown of Beloit by buying long-abandoned factories, refurbishing into commercial real estate.

John Krehbiel Jr.

$850 million

Molex. *Lake Forest, Ill.*

66. Married, 3 children

Grandfather Fred invented Molex, plastic originally used for flowerpots, clocks, toys. Father, John Sr. (d. 1993), steered business into electrical and optical connectors. With younger brother Fred, cochairs board, but no longer active in day-to-day operations. Competes in the Illinois bicycle racing circuit.

Robert Galvin

$800 million

Motorola. *Barrington Hills, Ill.*

82. Married, 4 children

Father, Paul Galvin (d.1959), found Galvin Manufacturing Corporation 19 renamed Motorola 1947. Made car rad and 5-pound "Handie-Talkie" 2-way crys radio. Robert started in stockroom 19 took over top spot after father's dea Introduced one of the first cell phones w the DynaTAC in 1983. Sold off televisi manufacturing business to concentrate semiconductors, wireless technology. Eld son, Christopher, became CEO in 1997, j in time for tech run-up and subsequ crash. Motorola stock plummeted 20 Chris resigned from board.

Norman Hascoe

$800 million

Investments. *Greenwich, Conn.*

75. Married, 3 children

Engineer, inventor started semiconduc materials outfit SemiAlloys in 1957 w $8,000; accumulated more than 1 patents along the way. Sold small part business 1969, later bought back. Sold AlliedSignal for $100 million cash a stock in 1983. Son Andrew manages fa ily's growing real estate investments; s Lloyd handles hedge fund, bond port lios. Director emeritus to the Whitehe Institute of Biomedical Research in Ca bridge, Mass. also funds physics lect series at University of Connecticut.

Roger Milliken

$750 million

Textiles. *Spartanburg, S.C.*

88. Widowed, 5 children

Grandfather built Milliken & Co. by buy struggling textile companies. Roger panded into specialty fabrics, chemicals, c pets. Outspoken advocate for textile tra protections facing potential fallout from end of quota on textiles from China. Co pany coping with depressed indus through innovation: creating high-te materials for aerospace, heavy industry.

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Jack Crawford Taylor

$3.2 billion

Enterprise Rent-A-Car. *St. Louis.*

82. Married, 2 children

Left Washington University and landed in Navy, became fighter pilot on U.S.S. *Enterprise* during World War II. Sold cars after war, became regional Cadillac distributor. Took 50% pay cut to start own car-leasing business with boss; offered rentals as temporary replacements for stolen, wrecked cars. Business boomed in 1970s after courts made insurance companies pay for replacement rentals. Emphasizes training, motivation of employees. Son Andrew began working for father "as soon as I could drive"; now president of $7.3 billion (sales) car rental giant.

Richard DeVos

$3 billion

Amway. *Ada, Mich.*

78. Married, 4 children

Jay Van Andel

$2.9 billion

Amway. *Ada, Mich.*

80. Widowed, 4 children

High school friends started out in 1950s selling nutritional supplements, turned Amway into direct-selling empire with more than 3 million people worldwide pushing personal-care and home products. Reorganized under Alticor banner; second generation now at the helm. Annual sales approach $5 billion, much of it from overseas operations. Families remain close, both major civic donors in Grand Rapids, Mich. DeVos owns pro basketball's Orlando Magic, recently donated $1 million to hurricane relief.

Sheldon Adelson

$3 billion

Casinos, hotels. *Las Vegas.*

71. Divorced, remarried; 5 children

Casino mogul seeking bigger jackpot in the Far East. In May opened Sands Macau, one many casinos he plans to build in gambli mecca south of Hong Kong. In Las Vegas pos record-setting first-quarter revenue ($220 m lion) and operating profit ($105 million) at Venetian, one of the Strip's largest hotels. A other winning bet: sold rights to hotel's Gra Canal Shoppes for $766 million in April to fu further expansions in Macau and Sin City. R mored Las Vegas Sands public offering this could be gaming's largest. Admitted Broadw enthusiast who studied voice in his tee bringing *The Phantom of the Opera* to t Venetian 2006. Son of Boston cabdriver ma first fortune in trade shows, selling Comdex Japan's Softbank for $800 million in 1995.

Charles Schwab

$2.8 billion

Discount stock brokerage.

Atherton, Calif.

67. Married, 5 children

Opened stock market to the masses w

laying the odds: **PHILLIP RUFFIN** ambled on Las Vegas real estate; now e's placing his bets with Donald Trump.

eponymous discount brokerage founded in 1971. Tapped into 1990s online trading boom, only to see much of business dry up with the market. Handed over CEO duties in 2003, took them back this year after company posted sagging profits; stock rallied 7% day after announcement. Dyslexic, established Charles and Helen Schwab Foundation to help children with learning disabilities.

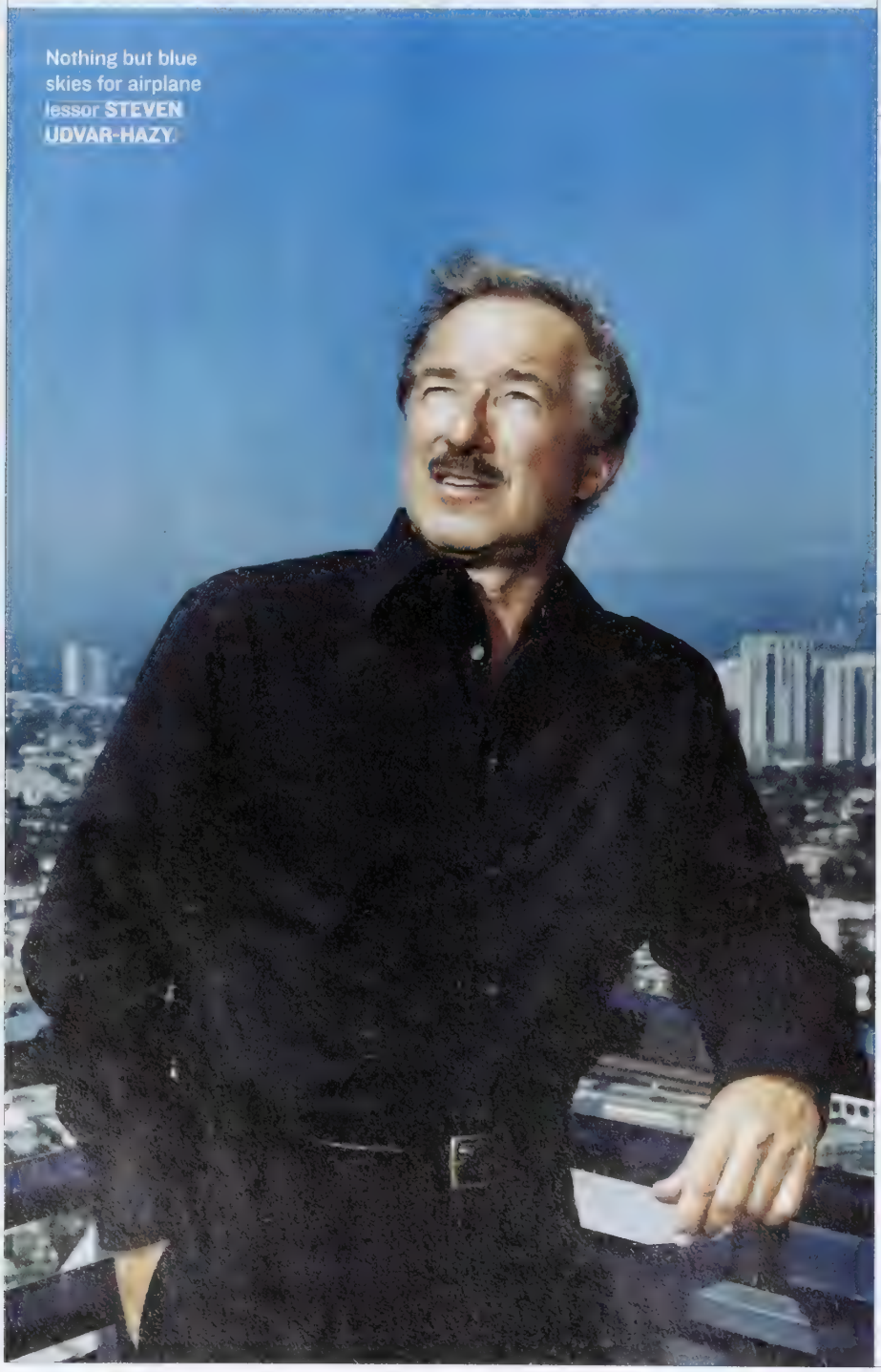
B. Wayne Hughes

$2.5 billion

Public Storage. *Bel Air, Calif.*

71. Divorced, 3 children (1 deceased)

Former exec at real estate syndicate Property Research started storage business 1972; merged with Storage Equities, took public 1995. Today one of nation's largest self-storage companies: 800,000 self-storage spaces in 80 cities. Also re 10 million square feet of commercial real est through PS Business Parks. Stepped down CEO in 2002; remains chairman. Donated $2 million Parker Hughes Cancer Center in Paul, Minn., named for his late son.



Nothing but blue skies for airplane lessor STEVEN UDVAR-HAZY.

Stephen Bechtel Jr.

$2.4 billion

Engineering, construction.

San Francisco.

79. Married, 5 children

Riley Bechtel

$2.4 billion

Engineering, construction.

San Francisco.

52. Married, 3 children

Rebuilding Iraq helped boost engineeri giant's revenues 40% over last year, but big business came from $5 billion waste treatm plant in Washington State, $4.5 billion pet chemical complex in southern China. Four generation family business built Hoover Da Hong Kong airport, Channel Tunnel, manag Boston's Big Dig. Family also major stakehol in private equity investor Fremont Group.

Steven Udvar-Hazy

$2.4 billion

International Lease Finance.

Beverly Hills, Calif.

58. Married, 4 Children

Hungarian immigrant's family fled Sov occupation in 1958. Studied economics UCLA but got hooked on flying. Teamed with Louis and Leslie Gonda *(see both)* wi the idea of buying, leasing planes to airlin Sold company in 1990 to Americ International Group for stock. Art collect and licensed commercial jet pilot financed t $311 million Steven Udvar-Hazy Center of t National Air & Space Museum, featuring 1 aircraft and space artifacts.

Louis Gonda

$1.9 billion

International Lease Finance.

Beverly Hills, Calif.

56. Married, 5 children

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Leslie Gonda

$1.5 billion

International Lease Finance.

Beverly Hills, Calif.

84. Married, 3 children

Father, Leslie, survived Holocaust with wife, Susan; fled Hungary for Venezuela 1947, then the U.S. in 1963. Worked in real estate. Partnered with son Louis and fellow Hungarian Steven Udvar-Hazy *(see)* to buy, lease airplanes to major carriers. Sold International Lease Finance to American Insurance Group 1990. Leslie contributes to UCLA Hospital, Israel's Bar-Ilan University and Mayo Clinic. Louis stays active in real estate, venture capital and film production via Beverly Hills' Lexington Commercial Holdings.

Frederick Smith

$1.8 billion

FedEx. *Memphis, Tenn.*

60. Divorced, remarried; 10 children

Yale economics undergrad wrote thesis on improving delivery services via integrated network of planes and trucks. Worked as crop pilot, bought small stake in Arkansas aviation firm; turned into courier service Federal Express. Earlier this year acquired Kinko's for $2.4 billion. Also finances Alcon Entertainment (*Chasing Liberty*, *My Dog Skip*), minority owner of the Washington Redskins football team.

Peter Sperling

$1.7 billion

Apollo Group. *Phoenix.*

44. Married, 2 children

John Sperling

$1.6 billion

Apollo Group. *Phoenix.*

83. Twice divorced, 1 child

After bosses at San Jose State University turned down proposal for adult-education program, John, humanities professor with Ph.D. from Cambridge, left to start for-profit University of Phoenix; took public as Apollo Group in 1994. Now nation's largest private university system: more than 200,000 students, 50 campuses, 90 learning centers. John resigned as chairman in June; remains on board. Iconoclast supports cloning research, marijuana legalization. Son, Peter, serves as Apollo's senior vice president. Apollo Group stock has returned 20% this year.

KENNY TROUTT hung up his telecom business in 1998; now he raises horses.

J. Joseph Ricketts & family

$1.5 billion

Ameritrade. *Omaha, Nebr.*

63. Married, 4 children

Native Nebraskan got start as investme

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banker, founded discount brokerage in 1975. Became first to offer automated telephone trades (1988), online trading (1994). Took Ameritrade public 1997. Growth through acquisition: bought rival Datek for $713 million in 2002; purchased brokerage firm Bidwell & Co. in January; recently agreed to acquire some 50,000 accounts from JB Oxford Holdings. Now one of the busiest online brokerages, with an estimated 164,000 trades a day. Spends free time raising bison on his Wyoming ranch.

Margaret Anne Cargill

$1.5 billion
Inheritance. *La Jolla, Calif.*
84. Single

James Cargill

$1.5 billion
Inheritance. *Minneapolis.*
80. Married, 3 children

Cargill MacMillan Jr.

$975 million
Inheritance. *Wayzata, Minn.*
77. Divorced, remarried; 4 children

BY THE NUMBERS

50
members of The Forbes 400 live in New York.

John MacMillan III

$975 million
Inheritance. *Hillsboro Beach, Fla.*
76. Twice divorced, remarried; 9 children

Whitney MacMillan

$975 million
Inheritance. *Minneapolis.*
75. Married, 2 children

W. Duncan MacMillan

$975 million
Inheritance. *Wayzata, Minn.*
74. Married, 4 children

Marion MacMillan Pictet

$975 million
Inheritance. *Hamilton Beach, Bermuda.*
72. Divorced, 1 child

Pauline MacMillan Keinath

$975 million
Inheritance. *St. Louis.*
72. Married, 4 children

Fourth-generation heirs to grain-trading and agribusiness empire started after Civil War by William W. Cargill and later taken over by son-in-law John MacMillan. Now America's largest private corporation (sales: $60 billion). Family believed to own 90%. Whitney was last family member to serve as Cargill chief, stepped down 1995. Cargill, Duncan and James also served as Cargill execs, board members, now retired. Duncan owns upscale golf club in Wayzata, Minn. Other family members keep low profile.

James Moran

$1.4 billion
Toyota distributor. *Deerfield Beach, Fla.*
86. Widowed, remarried; 3 children

Started pumping gas at age 14; wrangled own gas station, used car dealership, then Hudson and Ford franchises. Became local Chicago icon as "The Courtesy Man" in early television commercials. Cancer 1966, relocated to Florida, remission. Acquired regional Toyota distributorship 1968. Today

FRED SMITH created an original business model when he founded FedEx; can he duplicate his success with Kinko's?

Southeast Toyota is world's largest private held Toyota distributor. Sales: $7.7 billio Tax evasion conviction 1984. Many lawsui charged strong-arming dealers; $150 mi lion in settlements. Cleaned up act. Family holding company, JM Family Enterprise now guided by daughter Patricia.

Albert Lee Ueltschi

$1.4 billion
FlightSafety International. *Irving, Tex.*
87. Widowed, 4 children

Farm boy from Frankfort, Ky. inspired b radio reports of Charles Lindbergh's tran atlantic flight. Paid for flying lessons b opening hamburger stand near schoo Dropped out of college, flew for Pan Am Launched pilot training school FlightSafe International in 1951. Took public 1968. Sol

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to Warren Buffett's Berkshire Hathaway in 1996. Now chairs Orbis International: nonprofit group uses airplanes as mobile ophthalmological labs for doctors in developing countries.

Richard Marriott

$1.4 billion
Hotels. *Potomac, Md.*
65. Married, 4 children

J. Willard Marriott Jr.

$1.2 billion
Hotels. *Potomac, Md.*
72. Married, 4 children
Sons of J.W. Marriott Sr. (d. 1985), who started first root beer stand in 1927, opened first Marriott hotel in 1957; split empire 1993. Richard runs hotel-owner Host Marriott; J.W. Jr. manages Marriott International. Grumbling by Richard, other hotel owners over J.W.'s high operating fees subsided with new management contracts, recovering travel business.

CHARLES SCHWAB's tee times will have to wait; he's back in charge of his brokerage firm.

Joseph Jamail Jr.

$1.3 billion
Lawsuits. *Houston.*
78. Married, 3 children
Salty-tongued tort lawyer still going strong. Penned autobiography, *Trials and Jubilations*; takes only one out of every 500 cases offered: "Mostly chickenshit stuff." Started in D.A.'s office, formed own firm 1955. Built business on personal injury cases. Big score handling Texaco-Pennzoil merger 1987: received estimated $345 million in fees. Big donor to alma mater U. of Texas: "This country has enough roofers and car washers."

Phillip Ruffin

$1.3 billion
Casinos, real estate. *Wichita, Kans.; Las Vegas.*
68. Divorced, 3 children
Dropped out of college to flip burgers; eventually bought stakes in oil, real estate. Now owns 41 prime acres on the Las Vegas Strip, home to New Frontier hotel/casino. Land alone worth $1 billion. In July inked deal with friend Donald Trump to build 64-story Trump International Hotel & Tower; construction begins early next year. Still searching for partner to build 2 themed megaresorts on site. Other holdings: hotels in the Bahamas, convenience stores, hand-truck manufacturer Harper Truck. Continues legal push for slot machines at his 2 greyhound racetracks in Kansas.

O. Bruton Smith

$1.3 billion
Speedway Motorsports. *Charlotte, N.C.*
77. Divorced, 4 children
Stock car racing veteran opened Charlotte Motor Speedway in 1960, then went into tailspin: bankrupt 2 years later. Rebuilt company as Speedway Motorsports, took public in 1995. Now owns 7 tracks. Also stakes in

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car dealerships, repair shops through Sonic Automotive and Sonic Financial. Settled dispute with France family *(see)* over Nascar race circuit after buying France's North Carolina track for $100 million. Tussled with city of Charlotte after cutting down over 370 trees near track parking lot. Donates money to child-related causes via Speedway Children's Charities.

William France Jr.

$1.3 billion
Auto racing. *Daytona Beach, Fla.*
71. Married, 2 children

James France

$1.3 billion
Auto racing. *Daytona Beach, Fla.*
59. Married, 3 children
Sons of William H.G. France (d. 1992), who started racecar circuit Nascar in 1948, built up massive following in the Southeast. Bill Jr. took over as CEO in 1972, took stock car racing national with tracks from Los Angeles to New Hampshire. Passed reins to son, Brian, in 2003. Changed major sponsor, revised point system to make end of season more dramatic. Bill's daughter, Lesa France Kennedy, serves as president of public arm International Speedway, owner of 12 tracks.

Stephen Wynn

$1.3 billion
Casinos. *Las Vegas.*
63. Married, 2 children
Casino visionary preparing for April opening of Wynn Las Vegas: $2.7 billion resort with 2,700 rooms, Ferrari dealership, permanent space for Wynn's vaunted art collection. Son of a New York bingo parlor operator became keno manager at Frontier Hotel in Las Vegas. Bought Golden Nugget casino before building the Mirage, Treasure Island and Bellagio themed resorts. Sold Mirage to Kirk Kerkorian for $6.4 billion in 2000. Took Wynn Resorts public 2002: stock up 217% since offering. Now setting sights on Asia. Broke ground on Wynn Macau, $705 million casino in Far East gambling mecca.

BILL PULTE keeps a grip on a red-hot housing market.

William Pulte

$1.2 billion
Pulte Homes. *Detroit.*
72. Widowed, remarried; 14 children
Built first home at age 18 in 1950. Founded Pulte Homes 1952; expanded, took company public in 1969. Today the nation's largest home builder, averaging 4.5 homes every hour. Stock up 90% in the past year. Still bullish on the housing market, despite dour analysts predicting a bust.

William Connor II

$1.2 billion
Exports. *Hong Kong.*
54. Married, 3 sons
Father was trade attaché under Dou MacArthur during World War II; fou sourcing and logistic business after the flict. "Chip" started working at Asian-b William E. Connor & Associates at ag took over in early 1980s. Estimated $1.6 billion. Half of business comes apparel; the remainder from home pro

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like furniture, lighting. Clients include Nordstrom, Saks Fifth Avenue, Dillard's, Smithsonian and Harrods.

Marguerite Harbert

$1.2 billion

Inheritance. *Birmingham, Ala.*

81. Widowed, 3 children

Husband, John Murdoch Harbert III (d. 1995), parlayed $6,000 in gambling winnings into construction colossus. Took on high-risk projects: pipeline in South America, water supply in Abu Dhabi. Bought Kentucky, Tennessee coal reserves, sold to Amoco for stock during 1970s energy crisis. Son Raymond oversees family holdings; Marguerite hunts game on Georgia plantation.

Walter Scott Jr.

$1.2 billion

Construction, telecom. *Omaha, Nebr.*

73. Widowed, remarried; 6 children

Civil engineer became head of Omaha construction firm Kiewit in 1979. Moved company into telecom, fiber optics, power plants. Retired as Kiewit chairman but still chairs Level 3 Communications. Sits on board of Berkshire Hathaway.

Dean White

$1.1 billion

Billboards, hotels. *Crown Point, Ind.*

81. Married, 4 children

Merchant Marine Academy grad took over family billboard business in 1946; sold for $960 million in 1998. Also veteran of lodging business; manages more than 90 Marriott hotels. Cheerful workaholic still exploiting new opportunities: apartments in Florida, Palm Springs, new billboard business in China. "I have been poor. Overall, rich is better."

Kenny Troutt

$1.1 billion

Excel Communications. *Dallas, Tex.*

56. Divorced, remarried; 3 children

Son of a bartender, raised in Illinois projects. Paid way through college selling life insurance,

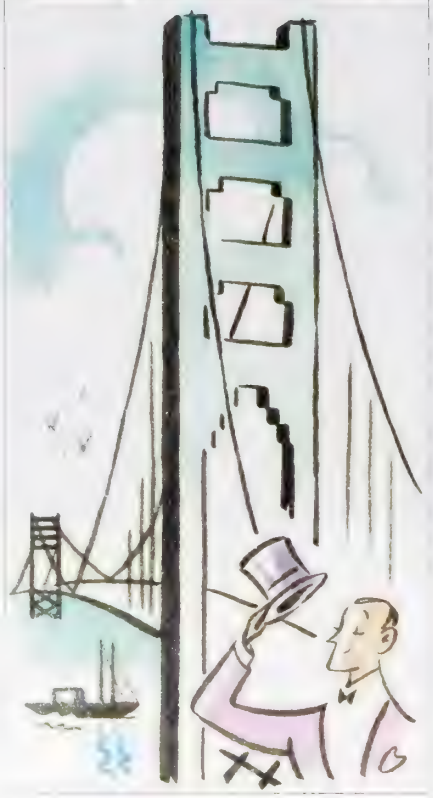
Online broker **JOE RICKETTS** lets anyone with a computer play the market; he processes 164,000 trades a day.

working construction jobs. Started Excel Communications, multilevel marketer of long-distance service. Sold to Teleglobe for $3.5 billion in 1998. Budding equestrian owns WinStar Farm in Kentucky, state-of-the-art Thoroughbred breeding and training grounds.

BY THE NUMBERS

98

members of The Forbes 400 live in California.



Jeremy Jacobs Sr.

$1 billion

Sports concessions. *East Aurora, N.Y.*

64. Married, 6 children

Father, Louis, opened popcorn stand 1915, grew into major sports concessio business. Jeremy took over company af father's death, transformed Delaware Nor into global player in food and hospitali Runs concessions at major ballparks, a ports, visitor centers at national parks. R cently purchased Tenaya Lodge, destinati resort near Yosemite National Park; Har son Hot Springs & Spa in British Colu bia. Bought bankrupt Mississippi Riv cruise-ship company Delta Queen in 200 Owns Boston's Fleet Center, pro hocke Boston Bruins. Avid horseman creat equestrian sanctuary on 400 acres ne Wellington, Fla.

B. Thomas Golisano

$1 billion

Paychex. *Rochester, N.Y.*

62. Divorced, remarried; 2 children, 2 stepchildren

Payroll-processing salesman recogniz market serving small businesses. Start Paychex in 1971 with $3,000. Expand through franchise agreements, joint ve tures. Consolidated company in 197 took public 1983. Now 100 offic $1.1 billion in sales. Founded New Yor Independence political party; persona financed 3 unsuccessful runs for govern Owner of pro hockey's Buffalo Sabr also supports colleges and hospital hometown Rochester.

Donald Schneider

$975 million

Trucking. *Green Bay, Wis.*

68. Married, 5 children

Father sold family car in 1935 to start tru ing and storage business. Donald gradua Wharton, joined firm in 1961, drove acq sition spree. Schneider National now 15,5 drivers, 48,000 trailers, operations in countries. Early adopter of satellite tracki technology; abandoned plan to spin

sportation logistics division after stock
ket downturn. Ceded day-to-day opera-
s to Schneider veteran Christopher Lof-
; still chairs board.

ctor Fung

0 million

ribution. *Hong Kong.*

Married

brother William runs family's Hong
g import-export firm Li & Fung. Com-
sources, exports for clients like Dis-
Coca-Cola, Kohl's. Became first wholly
ed company to be granted an export
se by the government of China. Victor
ed engineering degree from MIT, busi-
doctorate from Harvard. Recently
ed licensing deal to design, manufac-
and distribute clothing under Levi
ss label.

over Connell

0 million

estate, equipment leasing.

field, N.J.

Married, 3 children

over family's Connell Rice & Sugar in
after WWII Navy hitch; built into
n's largest independent broker/trader
ce, sugar. Added heavy equipment
ng (railcars, forklifts, tractors) 1973;
about $2.5 billion in assets. Also real
e: developing 170 acres prime com-
ial real estate along New Jersey's I-78
dor.

lliam Barron Hilton

5 million

ls, casinos. *Los Angeles.*

Married, 8 children

l is back. And so is Barron Hilton,
5-year hiatus from The Forbes 400.
of Hilton Hotels founder, Conrad,
d company 1951 as elevator operator,
me chairman in 1979. Sold pro foot-
San Diego Chargers to invest in casi-
nvestment in Caesars Entertainment
g high with Vegas boom, but sex-
ol granddaughter Paris Hilton steals
e headlines.

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Fashionistas

WHO CAN PREDICT THE PREDILECTIONS OF AMERICA'S YOUTH? THESE MOGULS HAVE MADE MILLIONS TAPPING INTO POPULAR TASTE.

RALPH LAUREN steered his fashion empire beyond shirts and ties. Today he peddles everything from paint to pillows.

Fashionistas rankings start on page 230 ▶

Philip Knight

$7.4 billion

Nike. *Beaverton, Ore.*

66. Married, 3 children (1 deceased)

Started out selling shoes from his car at track meets in 1964. Gained traction with innovative waffle sole, swoosh logo, superstar endorsements (Michael Jordan, Tiger Woods). Today Nike commands 36% of the U.S. athletic shoe market. Acquired Converse in 2003, Cole Haan in 1988. Also athletic clothes, sports equipment. Expansion plans finding new footing in Europe and Asia.

Leonard Lauder

$3.2 billion

Cosmetics. *New York City.*

71. Married, 2 children

Ronald Lauder

$2.1 billion

Cosmetics. *New York City.*

60. Married, 2 children

Sons of cosmetics doyenne Estée Lauder, who died in April at age 97. Mother founded company with husband, Joseph, 1946, pushing face cream made by chemist uncle in kitchen; now controls nearly half the premium cosmetics market in U.S. Family sold 13 million shares of stock to meet large estate tax bill after matriarch's death; Lauders still retain 46% stake in the company, majority of voting shares. Leonard: chairman of company since 1995. Son William, 44, took over CEO spot in July. Ronald: international investor with television properties in eastern Europe, Israel. Served as deputy assistant secretary of defense and ambassador to Austria under President Reagan. Eponymous foundation provides Jewish education throughout eastern and central Europe.

Leslie Wexner

$2.9 billion

Limited Brands. *Columbus, Ohio.*

67. Married, 4 children

Ohio State law school dropout borrowed $5,000 from aunt to set up first shop specializing in women's sportswear in 1963. Took company public 1969. Expanded Limited Brands into 3,800 stores and 7 retail brands, including Victoria's Secret, Express, Henri Bendel. Also Bath & Body Works, White Barn Candle Co. Established the Wexner Foundation in 1984 to support Jewish studies.

After 35 years running Gap, **DON FISHER** handed control to the next Gap generation.

Ralph Lauren

$2.7 billion

Fashion. *New York City.*

64. Married, 3 children

Bronx-born son of Russian immigrants dropped out of college, became clerk at Brooks Brothers. Designed ties for Beau Brummel before launching Polo in 1967 wi $50,000. Built Polo empire: men's ar women's clothing, kids' gear, luggage, fabri fragrances, house paint, furniture. Sales: $2 billion. Sold 28% of company to Goldma Sachs for $138 million in 1994; took publ 1997. Racing car and motorcycle collecto owns homes in Colorado, Jamaica and Ne York. Eldest son, Andrew, a producer. Daug ter, Dylan, runs Manhattan candy stor Youngest son, David, Polo senior vice presiden

Robert Fisher

$1.5 billion

Gap. *San Francisco.*

51. Married, 3 children

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LEONARD LAUDER still chairs the cosmetics company founded by his mother, Estée, but son William runs the business.

John Fisher

$1.5 billion
Gap. *San Francisco.*
43. Married, 4 children

Donald Fisher

$1.1 billion
Gap. *San Francisco.*
76. Married, 3 children

Doris Fisher

$1.1 billion
Gap. *San Francisco.*
73. Married, 3 children

William Fisher

$1 billion
Gap. *San Francisco.*
47. Married, 3 children
Former real estate developer Donald and wife, Doris, founded Gap as a San Francisco jeans and music store in 1969. Six stores opened within first year. Pioneered customer convenience by arranging by size, not style. Now over 3,000 locations with expanded empire including Banana Republic (1983), Gap Kids (1986) and Old Navy (1994.) In August, after 35 years running Gap, parents handed control of company, and nearly half their stock holdings, to next generation of Fishers. Eldest son, Robert, now serves as Gap chairman.

Richard T. Farmer

$1.4 billion
Cintas Corp. *Cincinnati.*
69. Married, 3 children
Grandfather started small industrial rag-cleaning business for factories during the Depression. Richard joined company in 1957 after stint in the Marines, became CEO 1968. Turned rags into riches via uniform rental business. Took Cintas public 1983. Today more than 5 million workers wear Cintas uniforms. Handed reins to son, Scott, last year. Richard keeps busy supporting veterans' causes, inner-city education, Miami University business school.

James Jannard

$1.2 billion
Oakley. *San Juan Islands, Wash.*
55. Divorced, remarried; 7 children
Media-shy fashion mogul got start selling newfangled motorcycle grips out of the trunk of his car in 1975. Added motorcycle goggles, sunglasses. Boosted sales through savvy marketing, new lens technology, instinct for style. Invaded Nike's turf with push into sportswear, shoes. Introducing new shades outfitted with MP3 players. Reaped hundreds of millions selling Oakley shares in the 1990s; now says he plans to buy back 2 million shares of "undervalued" company.

William Kellogg

$1.1 billion
Kohl's. *Oconomowoc, Wis.*
61. Married, 2 children
With partners, John Herma and Jay Baker, took over Kohl's department store chain in 1986 management buyout. Rapidly expanded 40-store chain, took public in 1992. Today 600 Kohl's stores generate $10 billion in sales, but stock lately losing ground because of ballooning inventories, increased competition. Stepped down as CEO 1999; keeps eye on small investment in used car chain CarMax.

Gary Comer

$1 billion
Lands' End. *Chicago.*
76. Married, 2 children
Chicago native skipped college to take copywriting job with Young & Rubicam; q to go sailing. Supported sailor's life selli boat parts and supplies through mail-ord catalog in 1963. Diversified into luggag clothes, and away from boat hardware. To Lands' End public in 1986. Sold to Sea Roebuck in 2002 for $1.9 billion. Now ric philanthropic winds, mostly Chicago-ar children's causes.

Timothy Boyle

$860 million
Columbia Sportswear. *Portland, Ore.*
55. Married, 2 children
German immigrant grandfather escap Nazi Germany, settled in Portland. Open hatmaker Columbia in 1938. Father to over until death in 1970. Tim left U. of O gon to continue business with mother, Ge continued expansion into rugged outdo clothing. She became public face of compa in series of comical ads. Trustee of Reed C lege; member of University of Oregon Fou dation. Likes to golf, fly-fish, ski, hunt bir

Paul Fireman

$830 million
Reebok. *Newton, Mass.*
60. Married, 3 children
Athletic-shoe maker regaining ground l to Nike in sneaker wars: new endorsemen by rappers Jay-Z and 50 Cent; $40 milli deal with tennis star Venus Williams, larg ever for female athlete. Former distribut of sporting goods bought U.S. distributi rights for small English shoe company 1979. Added women's athletic shoe; e panded with Ralph Lauren footwear a Rockport. Supplies uniforms to pro footb and basketball leagues; will do the same f pro hockey league with recent $200 milli acquisition of Hockey Co. This year land exclusive rights to provide footwear to Ma League Baseball teams. Side venture Willo bend develops golf courses, real estate.

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Epicureans

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Forrest Mars Jr.

$10 billion
Candy. *McLean, Va.*
73. Married, 4 children

John Mars

$10 billion
Candy. *Arlington, Va.*
68. Married, 2 children

Jacqueline Mars

$10 billion
Candy. *Bedminster, N.J.*
65. Twice divorced, 3 children

Grandchildren of Frank and Ethel Mars, who started making confections 1911, struck sweet spot after young Forrest (d. 1999) suggested candy bar based on popular chocolate malted milk drink. Malt-flavored nougat became cornerstone of Mars candy bar line: Milky Way, Snickers, 3 Musketeers. Added M&Ms, Twix, Skittles. Now the nation's largest confectioner, with sales of over $17 billion. Also pet food (Whiskas, Sheba, Pedigree), Uncle Ben's Rice, electronic components for vending machines. Outsiders run day-to-day business, but John's son, Frank, currently head of Mars' Asia Pacific operations, being groomed for top spot.

William Wrigley

$4 billion
Chewing gum. *Lake Forest, Ill.*
40. Married, 3 children

Great-grandfather peddled baking powder, used chewing gum as incentive. Found gum more popular. Now the world's number one chewing gum manufacturer. Fourth-generation Wrigley hungry for acquisitions: bought Spanish confections producer Joyco Group for $260 million.

Edgar Bronfman Sr.

$2.5 billion
Liquor. *New York City.*
75. Thrice divorced, remarried; 7 children

Inherited Seagram spirits empire from father, Sam, Russian émigré who founded Distillers Corp. in Montreal in 1924, made millions running whiskey across U.S.-Canadian border during Prohibition. Edgar expanded with Chivas Regal, Absolut Vodka, Tropicana, big stake in DuPont. Son Edgar Jr. unloaded juice and nylon interests to finance Hollywood binge: 15% of Time Warner, $5.7 billion purchase of MCA/Universal. Sold everything to French conglomerate Vivendi in 2000 for $34 billion in stock, then watched fortune plummet. Attempt to buy back assets failed; Edgar Jr. teamed up with Tom Lee *(see)* in $2.6 billion buy of Warner Music (Madonna, Metallica). Edgar Sr. still active in Jewish causes.

John R. Simplot & family

$2.3 billion
Potatoes, microchips. *Boise, Idaho.*
95. Divorced, remarried; 4 children (1 deceased)

Every time the fries get supersized, chalk up a few pennies for Simplot. Food giant supplies half the fries for McDonald's. Eighth grade dropout got into spuds during De pression, created multibillion-dollar privat food conglomerate JR Simplot. Made mil lions more betting on semiconductor com pany Micron Technologies.

Charles Butt

$2.2 billion
Supermarkets. *San Antonio, Tex.*
66. Single

Third-generation grocer took over family' H.E. Butt supermarket chain 1971. Toda more than 300 stores, $11 billion in sales Still expanding: plans to double presenc in Mexico to 20 stores in 5 years. In Texa caters to yuppie tastes with upscale Cen tral Market stores: eschews brands lik Kraft and Coca-Cola in favor of gourme foods, wine and cheese, in-store cafes. For mer bag boy (and Wharton grad) donate 5% of pretax profit to charities, much t education.

Gordon Getty

$2.1 billion
Oil. *San Francisco.*
71. Married, 7 children

Son of oil baron J. Paul Getty Sr. (d. 1976) Spent 4 years in family business, then opte for the esthetic life; studied music at the Sa Francisco Conservatory. Sold family's Gett Oil to Texaco for $10 billion 1986. Now committed composer; works include "Joa and the Bells," "The White Election" an

SYDNEY FRANK created a stir selling his Grey Goose ultrapremium vodka for $2 billion to Bacardi. Up next: wine, tequila, energy drinks.

"Victorian Scenes." Baseball fan still dabbles in business: funding ReFlow, outfit that buys illiquid shares from mutual funds. Also founded winery, resort and restaurant business under PlumpJack name. Celebrated 70th birthday in December with star-studded Hollywood costume party. Currently backing Jerry Brown for California attorney general.

Robert Rich Sr.

$2 billion

Nondairy creamer. *Palm Springs, Fla.*

91. Widowed, remarried; 3 children

Learned family dairy business, bought own milk company 1935. Developed soybean-based whipping cream 1940s; struck gold with nondairy coffee creamer in 1960. Expanded into frozen foods, food services. Son Robert Rich Jr. now in charge of 6,500-employee company. Sales: $1.9 billion. With family, operates 3 minor league baseball teams, including Triple-A's top draw, the Buffalo Bisons. Generous contributor to GOP, friend to both Bush presidents.

S. Daniel Abraham

$1.8 billion

Slim-Fast. *Palm Beach, Fla.*

80. Married, 5 children

World War II infantryman, pharmaceutical entrepreneur made fat fortune helping others shed pounds. Created Slim-Fast nutritional supplements late 1970s, sold to Unilever for $2.3 billion in 2000. Continues healthy pursuits by funding Mayo Clinic. Active supporter of Israeli-Arab peace initiatives through his Center for Middle East Peace and Economic Cooperation. "Violence and warfare should be eliminated from man's actions."

Clayton Lee Mathile

$1.8 billion

Iams. *Dayton, Ohio.*

63. Married, 5 children

Former Campbell Soup accountant joined animal nutritionist Paul Iams' pet-food firm 1970; succeeded Iams 1975, bought him out 1982. Built company by catering to high-end breeders and veterinarians, "focusing on the dog and cat as the customer." Sold Iams to Procter & Gamble for $2.3 billion in 1999. Stays busy feeding Mathile Family Foundation, Center for Entrepreneurial Education in Dayton.

Jess Stonestreet Jackson

$1.8 billion

Wine. *Healdsburg, Calif.*

74. Divorced, remarried; 5 children

Onetime land-use lawyer planted vines north of San Francisco mid-1970s, released first Kendall-Jackson wine in 1982. Today his Jackson Family Estates encompasses 20 brands (Camelot, Château Lassègue), selling an estimated 5 million cases of wine a year. Looked to retire in 2000, put K- for sale for $1.7 billion, changed m Expanding into boutique wineries wife, Barbara Banke.

Sidney Frank

$1.6 billion

NEW **Liquor.** *New Rochelle, N.Y.; San Diego, Calif.*

85. Widowed, remarried; 2 children

Connecticut farmer's boy grew up p milking cows and churning butter. Enr at Brown University; couldn't afford ition, dropped out after 1 year. Drea of marrying rich girl; got hitched to Sk Rosenstiel, heiress to Schenley Disti

Aspiring First Lady **TERESA HEINZ KERRY** can ask for condiments in 5 languages.

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Smarter ways to be conservative.

fortune, late 1940s. Father-in-law taught him liquor business; became president 1960. Started Sidney Frank Importing Co. in 1972. Lost money first 6 years, sold beachfront property on Antigua for $500,000 to meet payroll. Tapped into first fortune importing Jägermeister liquor from Germany; marketed like beer, scantily clad Jägerettes made "liquid Valium" a hit among college kids. Created ultra-premium vodka Grey Goose at age 77; sold to Bacardi in April for $2 billion. Now focusing on wine, tequila. Recently donated $100 million to Brown.

Mary Alice Malone

$1.6 billion
Inheritance. *Coatsville, Pa.*
54. Divorced, 2 children

Bennett Dorrance

$1.5 billion
Inheritance. *Paradise Valley, Ariz.*
57. Married, 2 children

Charlotte Weber

$1 billion
Inheritance. *Ocala, Fla.*
61. Divorced, 3 children

Hope Hill Van Beuren

$950 million
Inheritance. *Middletown, R.I.*
70. Married, 3 children

Dorrance Hill Hamilton

$930 million
Inheritance. *Wayne, Pa.*
76. Widowed, 3 children
Cousins. Grandfather John T. Dorrance invented soup-condensing process while working at uncle's Campbell Preserve Co. Bought out uncle in 1914. Malone and Dorrance (along with John III, now living in Ireland to avoid taxes) inherited from son John Jr., others from 3 daughters. Grandchildren not actively involved in company but still own about half the stock: Malone, Dorrance, Weber and George Strawbridge all sit on board. Interests include Philadelphia-area philanthropy, also horses (Malone, Weber), art (Weber), real estate and airplanes (Dorrance) and gardening (Hamilton).

Peter Buck

$1.5 billion
NEW **Subway.** *Danbury, Conn.*
73. widower, 1 child

Frederick DeLuca

$1.5 billion
NEW **Subway.** *Fort Lauderdale.*
56. Married, 1 child
Buck fronted DeLuca cash to open sub shop to help pay for college in 1965. Shop floundered, so DeLuca opened a second to create aura of success. Partners have opened 21,870 Subways since—19,000 in U.S. alone, giving Subway more domestic storefronts than McDonald's. Next goal: repeating the feat overseas. Keeps overhead low, charges minimal franchise fees. But ballooning store count means negative same-store sales, keeping worried operators on their toes.

BY THE NUMBERS
There are 51 women on The Forbes 400. Average net worth:
$2.8 billion

Christopher Goldsbury

$1.3 billion
Salsa. *San Antonio. Tex.*
61. Divorced, 1 child
After marrying daughter of salsamak David Pace, worked way up from produ tion line to president. With wife, bought c rest of family in 1982. Bought wife's half f $95 million in 1991 divorce. Sold whole e chilada 4 years later to Campbell Soup f $1.1 billion. Low-profile Texan invests other food companies (Cider Jack hard cid Ecce Panis bakeries) via private equity fi Silver Ventures.

Marvin Herb

$1 billion
Soft-drink bottling, real estate. *Chicag*
67. Married, 2 children
University of Toledo M.B.A. became Bro plant manager for PepsiCo; president Pepsi-Cola Bottling of Indianapolis 197 Things got better with Coke: bought Coc Cola bottling plants in Indianapol Chicago; grew into nation's third-larg Coke bottler before selling out to Coc Cola Enterprises for $1.4 billion in 200 Now investing in real estate: some 3 m lion square feet of Chicago-area comme cial space.

John Anderson

$1 billion
Investments. *Bel Air, Calif.*
87. Married, 4 children
Sold popcorn outside dad's Minneso barbershop. UCLA on hockey schola ship; Harvard M.B.A., night law school Loyola. Cofounded of Kindel & Anders law firm 1953; learned beverage distri ution business from clients. Formed di tributor Ace Beverage 1956, landed excl sive rights to distribute then-minor be brand Budweiser in Los Angeles. Tod oversees Topa Equities: car dealershi (Silver Star Automotive), insurance, re estate (more than 1 million square feet commercial space in L.A.). Active octog narian still occasionally spotted drivi his Subaru.

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Harvey Chaplin & family

$1 billion

NEW **Liquor, wine distribution.** *Miami, Fla.*

75. Married, 3 children

Brooklyn-born wine and liquor distributor got start in mailroom of Schenley Distillers; promoted to assistant director of marketing, reported to company president Sidney Frank *(see)*. Ran Schenley's wholesale liquor distributor in upstate New York. Joined Southern Wine & Spirits of America 1969, became chief in 1994. Today owns 70% of company. Estimated sales: $5.5 billion. Controls distribution channels in key states, including California, Florida, Nevada.

Ernest Gallo

$950 million

Wine. *Modesto, Calif.*

95. Widower, 2 children (1 deceased)

Italian immigrant father started growing grapes during Prohibition. Ernest and brother Julio (d. 1993) took over after father killed mother, self 1933. Built E&J Gallo Winery into world's second-largest wine company. Estimated sales: $1.8 billion. Intensely private company once built on jug wine and cheap swill (Night Train) now producing higher-end brands like Turning Leaf and Gallo of Sonoma. Bought Napa's Louis M Martini brand 2002; importing wines from Australia (Black Swan, McWilliams), New Zealand (Whitehaven) and France (Red Bicyclette). Mostly retired; grandchildren of both brothers run the company on day-to-day basis.

Donald Tyson

$925 million

Chicken. *Springdale, Ark.*

74. Married, 4 children

Started working at father's Tyson Feed & Hatchery 1952. Company went public 1963. Bought meatpacker IBP in 2001, making Tyson Foods the world's largest poultry and red meat provider. Second-generation chicken man passed the reins of day-to-day operations to son John. Now spends time deep-sea fishing.

Composer **GORDON GETTY** pours his family fortune into new ventures.

John T. Lupton

$800 million

Soft-drink bottling.

Lookout Mountain, Tenn.

78. Married, 4 children

Grandfather John T. Lupton landed Coca-Cola distribution rights 1899. "Jack" joined business as bottle washer 1954. Sold Great Western Coca-Cola Bottling Co. to Coke for $1.4 billion in 1986. Donated $25 million to U of Tennessee; 4 children sit on board of Lyndhurst Foundation, charitable organization active in Chattanooga-area causes.

Harold Honickman

$775 million

Soft-drink bottling. *Philadelphia.*

71. Married, 2 children

Landed first bottling plant and Pepsi distribution rights in 1957. Added Canada Dry, Snapple. Beer distributorships in New Yor New Jersey, Philadelphia area. With wif Lynne, gives to social causes, the arts v Honickman Foundation. Still chairman Honickman Affiliates (estimated sales: $1 bi lion); son Jeffrey serves as chief executive.

Teresa Heinz Kerry

$750 million

Inheritance. *Fox Chapel, Pa.*

66. Widowed, remarried; 3 children

Born and raised in Mozambique, attend South Africa's University of Witwatersran interpreters school in Geneva. Married 19 to heir to ketchup factory H.J. Heinz C U.S. Senator Henry John Heinz, who died plane crash 1991. Married Democratic pre idential nominee John Kerry in 1995. Chai Howard Heinz Endowment, Heinz Fami Foundation: environmental causes, educ tion, women's rights.

Charles H. James III

CEO of C.H. James & Co., the oldest black-owned company in America

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Marvin Davis

$5.8 billion

Investments. *Beverly Hills, Calif.*

79. Married, 5 children

Propensity for uncanny timing (buying, selling Twentieth Century Fox, Beverly Hills Hotel, Aspen Skiing, Pebble Beach) on display again: said to have plowed most of his assets back into original Davis Petroleum, the wildcatting outfit founded by father, Jack. Investments mostly in the hands of 2 sons. Gregg runs Davis Petroleum; movie producer son John oversees his own venture capital fund. Wife Barbara's "Carousel of Hope" bash still a hot ticket in Beverly Hills.

Philip Anschutz

$5.2 billion

Investments. *Denver.*

64. Married, 3 children

Former oilman now runs wide-ranging empire in telecom, sports and entertainment. Two biggest holdings: fiber-optic company Qwest, in the spotlight over accounting shenanigans; theater chain Regal Cinemas. Owns LA's Staples Center and London's Millennium Dome as well as Major League Soccer teams and stakes in NBA Lakers and NHL Kings. Also recently purchased troubled *San Francisco Examiner* for reported $20 million. Promoter of family-values agenda through motion picture projects. Philanthropist also sponsors nationwide billboard campaign featuring celebrities and altruistic "Pass It On" slogan.

Dan L. Duncan

$4.2 billion

NEW **Natural gas.** *Houston.*

71. Remarried, 4 children

Cofounder, chairman and majority shareholder of Enterprise Products Partners, massive natural gas liquids pipeline and storage company. Native of small-town Center, Tex. was raised by grandmother from age 7 after mother and only sibling died. Cites grandmother's motto, "Do the best you can every day," as foundation for his business philosophy. Roughneck after high school; Army stint. Studied at Massey Business College and South Texas College before starting Ente prise Products with 2 partners, 1 truck an $10,000 in 1969. Bought out last partn 1989, went public 1998 as master limite partnership; still owns 53% of company. Av hunter has stalked big game on 6 continent Low media profile, but gives heavily to R publican politicians around the country.

Charles Koch

$4 billion

Oil, commodities. *Wichita, Kans.*

67. Married, 2 children

David Koch

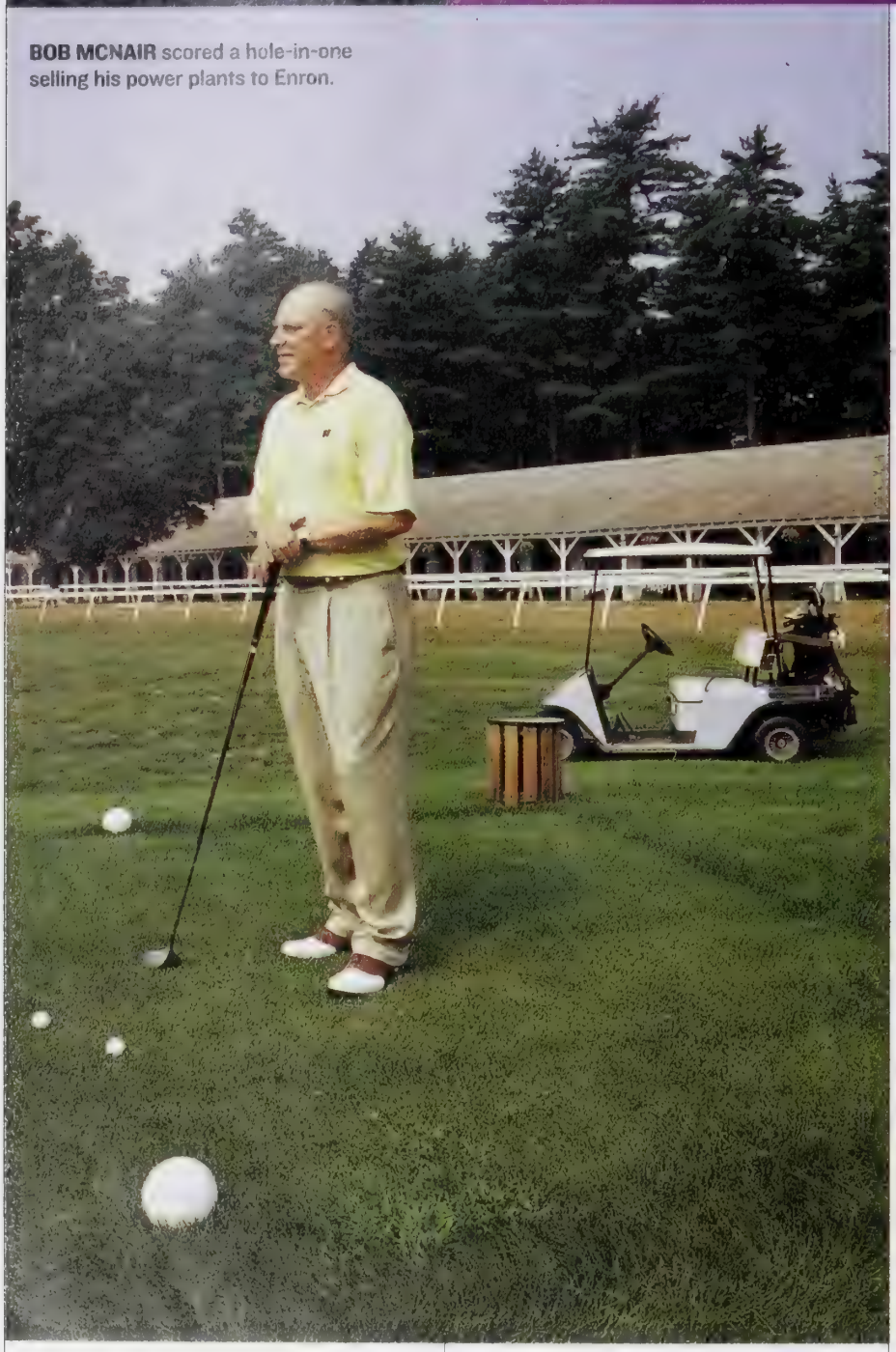
$4 billion

Oil, commodities. *Wichita, Kans.*

63. Married, 2 children

Sons of Fred C. Koch, MIT grad who i vented method of turning heavy oil in gasoline. Took technology to Soviet Unio became disillusioned with Stalin, return to the U.S., joined John Birch Society. So Frederick, Charles, David and William i herited Koch Industries after father's deat

th oil prices sky-high, **TRICK TAYLOR**'s Gulf Mexico discoveries are king pretty slick.



BOB MCNAIR scored a hole-in-one selling his power plants to Enron.

Charles became chairman, expanded into chemicals, pipelines, asphalt, commodities trading. Fraternal rift after Charles and David bought out William and Fred in 1983 for $1.1 billion; settled 2001. On the move: more than $7 billion in acquisitions over the past year, including DuPont's synthetic-fiber business, pulp and paper business from Georgia-Pacific. Selling Entergy-Koch trading business to Merrill Lynch; Canadian oil sands projects to UTS Energy Corp. Charles a founder of conservative think tank Cato Institute.

George Kaiser

$4 billion

Oil & gas, banking, retirement housing. *Tulsa, Okla.*

62. Widower, 3 children

Took over family's Kaiser-Francis Oil in 1969, built empire into energy investments, banking, real estate. Prescient bets on risin oil and gas prices paying off: "We saw a imbalance in supply and demand that in th short term can only be rectified throug pricing." Longer term, placing bets on lic uefied natural gas. Investing in "energ bridge" technology: unloads liquefied ga from tankers via submerged buoys, pipe ashore via undersea pipelines.

Robert Rowling

$3.5 billion

Oil & gas, hotels, investments. *Dallas.*

51. Married, 2 children

Corporate lawyer joined dad's Tana Oil Gas in 1980; sold production units to Texac in 1989, exploration division to Unoca Bought luxury hospitality chain Omni Ho tels 1996; now 40 hotels throughout Nort America. Completed his biggest hotel (1,06 rooms), in Atlanta, last November with Tim Warner. New Tana incarnation now pro ducing gas in the Gulf. Branching out: th year bought legendary Gold's Gym for $15 million and grabbed a stake in fast-growin Mexican dollar-store chain Waldo's.

Robert Muse Bass

$2.9 billion

Oil, investments. *Fort Worth, Tex.*

56. Married, 2 children

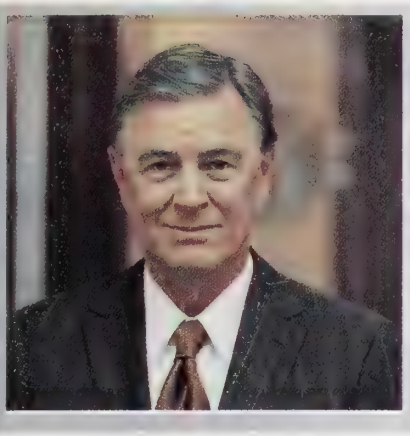
Third son of Texas oilman Perry Bass (*see* Graduated from Yale, Stanford Busine School. Father handed family business to e dest son, Sid; Robert, feeling overshadowe broke out on his own 1983; moved one flo down in Bass-financed Fort Worth offi tower. Arguably the better investor: divers fied holdings included *St. Petersburg Time* Wometco, Continental Broadcasting, Lon Star Technologies, San Juan Basin Royal Trust. Sold Plaza Hotel to Donald Trump. H Oak Hill Capital Partners specializes in leve aged buyouts. Latest deal: buying Duan Reade drugstore for $700 million.

David Rockefeller Sr.

$2.5 billion

Standard Oil, banking. *New York City.*

89. Widower, 6 children



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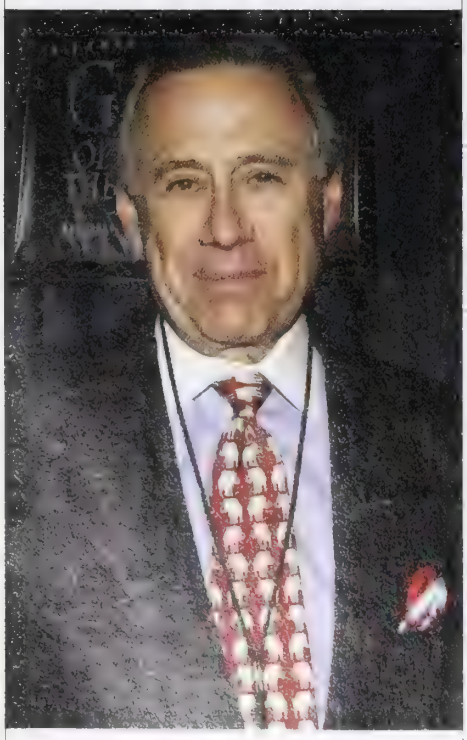
Winthrop P. Rockefeller

$1.2 billion

Standard Oil. *Morrilton, Ark.*

56. Divorced, remarried; 8 children

Grandson and great-grandson of John D. Rockefeller, grain merchant who turned a $4,000 investment into Standard Oil. Dominated oil market until federal regulators forced its breakup in landmark 1911 antitrust case. David's father, John D. Rockefeller Jr., moved money into real estate (Rockefeller Center) and philanthropy (Rockefeller University). Sibling Laurance Rockefeller, staunch environmentalist instrumental in fostering national park system, died at age 94 in July; David now the sole survivor of his generation. Still active: with daughter recently opened Stone Barns Center for Food and Agriculture, nonprofit organic farm dedicated to sustainable agriculture, with high-end restaurant and cafe, built on family's 4,000-acre Pocantico estate north of New York City. Son of former Arkansas governor Winthrop Rockefeller (d. 1973), "Win" continues family's political legacy as lieutenant governor of Arkansas.



PHILIP ANSCHUTZ made a fortune in oil and fiber optics. The media-shy baron now invests in movie theaters and sports.

Ray Lee Hunt

$2.3 billion

Inheritance, oil, real estate. *Dallas.*

61. Married, 5 children

Son of archetypal Texas oilman H.L. Hunt (d. 1974), whose oil empire supposedly started from poker winnings. Inherited most of Hunt Oil: older branch of the family took a big hit in silver market, but Ray stuck with the black gold, scored big with deal in Yemen. Now looking to move into natural gas with Peruvian pipeline deal. Known for D.C. connections thanks to fundraising for Bush, seat on Halliburton board.

George Mitchell

$1.8 billion

Mitchell Energy. *Houston.*

85. Married, 10 children

Wildcatter founded Mitchell Energy & Development in 1946, struck gold in north Texas gas fields. Sold to Devon Energy in 2001 for $3.5 billion. Longtime environmentalist opposed oil drilling in Alaska wildlife refuge, funded $10 million National Academies study on sustainable development and population growth. Donated $1.2 million to Texas A&M University to fund Giant Magellan Telescope.

Lee Bass

$1.7 billion

Oil, investments. *Fort Worth, Tex.*

48. Married

Sid Bass

$1.3 billion

Oil, investments. *Fort Worth, Tex.*

61. Divorced, remarried; 2 children

Edward Bass

$1 billion

Oil, investments. *Fort Worth, Tex.*

59. Married, 3 children

Perry Bass

$900 million

Oil, investments. *Fort Worth, Tex.*

89. Married, 4 children

Upturn in oil and gas prices helping first family of Fort Worth overcome bad lat 1990s tech bets. Oil-and-gas-exploratio company getting ready to drill wells off th coast of Nova Scotia. Also owns stakes i Human Genome Sciences, John Wiley Sons. Family patriarch, Perry, inherited sli of uncle Sid Richardson's oil fortune aft he died in 1951. Expanded empire. Hand family business to eldest son Sid in 196 who brought in Stanford business scho chum Richard Rainwater *(see)* in 1970. Th engineered white knight Disney investmer Ed opted for Yale's architecture school; bu adobe homes in New Mexico and funde the now financially troubled Biospher Family responsible for revitalization downtown Fort Worth.

BY THE NUMBERS

The youngest member of The Forbes 400:

Sergey Brin, 31

E. Pierce Marshall

$1.6 billion

Inheritance. *Dallas.*

65. Married, 2 children

Son of late Texas oilman J. Howard Ma shall II. Inherited father's slice of private held Koch Industries. Vehemently deni FORBES' estimation of his net wort claiming no market for his stake in tl company. Still sparring with erstwhile ste mom, former stripper, zaftig model, reali show star and Trimspa spokeswoman, An Nicole Smith. Court froze earlier Califo nia court decision granting her $88.5 mi lion of elder Marshall's estate, pendi younger Marshall's appeal.

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Richard Kinder

$1.6 billion

Pipelines. *Houston.*

60. Married, 1 child

Former Enron president wisely left firm in 1996, uncomfortable with "asset-light" strategy. Bought Enron's asset-rich liquid gas pipeline operations with college classmate William Morgan. Today controls over 35,000 miles of pipeline and some 100 terminals. Spent in 2004 $150 million on pipelines and terminals from ConocoPhillips, ExxonMobil, Royal Dutch/Shell. Poster boy for "proper" executive compensation, paying himself $1 a year and flying coach on company time. But payouts from limited partnership make sure he has plenty of cash to indulge in fly-fishing hobby.

Robert McNair

$1.5 billion

Energy. *Houston.*

66. Married, 4 children

Cogen Technologies founder opted for cash and stock when he sold the nation's largest privately held power company to Enron for $1.5 billion in 1999. Became a hometown hero after bringing pro football expansion team to Houston. Avid horseman controls Stonerside Stables, winner of 57 Graded Stake horse races. Civic-minded: taking leading role in project to revitalize downtown Houston with pedestrian-friendly streets and gardens.

Robert Holding

$1.3 billion

Oil refining, resorts. *Salt Lake City.*

77. Married, 3 children

Son of Mormon apartment caretakers got start managing hotel/gas station complex after college in Little America, Wyo. Bought 10% stake in operation, added stations in Utah, Arizona. Moved into refining as business grew; bought Sinclair Oil 1976. "Earl" diversified into hotels, including Sun Valley Ranch ski resort, home to Herb Allen's *(see)* annual media mogul conference. Bought for $12 million, now worth over $300 million. Other resorts: Utah's Snowbasin ski area and 395-suite Grand America Hotel, venues for the 2002 Winter Olympics in Salt Lake City.

ROBERT ROWLING plans to beef up his newly acquired Gold's Gym.

Patrick Taylor

$1.2 billion

Taylor Energy. *New Orleans, La.*

67. Married

Beaumont, Tex. native left home at 16, paid own way through Louisiana State University. Started oil-drilling business in 1974, sold out 1979; used proceeds to start Taylor Energy, one of the largest private oil companies in Gulf of Mexico. Good timing: doubled proven reserves as oil prices spiked. Philanthropist known for Taylor Plan in Louisiana, paying college tuition for kids who do well in high school. Big-game hunter also collects military weaponry.

Marc Rich

$1.1 billion

Commodities. *Meggan, Switzerland.*

69. Divorced, remarried; 2 children

Pincus Green

$1.1 billion

Commodities. *Meggan, Switzerland.*

69. Married, 4 children

Ex-fugitive oil-trading partners. Belgia born Rich fled Europe to U.S. with fam 1941. NYU dropout got start in Phill Brothers mailroom. Rose through ranks wi Brooklyn-born Green. Star traders help build Phibro into then-world's largest co modities firm. Created spot oil market 19

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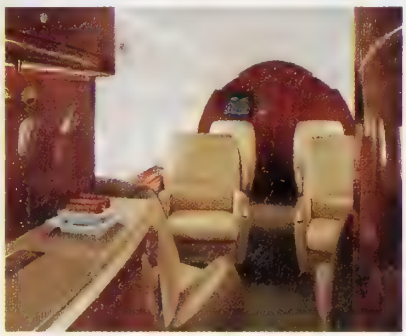

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founded Marc Rich & Co. 1973. Traded Iranian crude during hostage crisis, shipped profits to Switzerland. Duo fled tax evasion charges in 1983, have lived in Swiss alps ever since. Rich sold commodities brokerage 1994, invested in European commercial real estate. Green retired after heart surgery 1992. Partners remain reluctant to return to U.S. despite receiving pardons from President Clinton. Rich's stand-up-comic daughter Daniella married wealthy money man Richard Kilstock in Spain in August.

Anne Windfohr Marion

$1 billion

Inheritance, oil. *Fort Worth, Tex.*
65. Thrice divorced, remarried; 1 child

Wild West legend says great-grandfather won Texas' famed 6666 Ranch in poker game. Went on to amass 448,000 acres in the panhandle; struck oil. Anne inherited land, royalties, working interest through family's Burnett Oil company. Avid art collector instrumental in bringing modernism to cow town: lives in house designed by I.M. Pei. Major benefactress of Tadao Ando-designed Modern Art Museum of Fort Worth.

Jesse Mack Robinson

$1 billion

Banking, insurance. *Atlanta.*
81. Married, 2 children

Used car salesman, college dropout created chain of auto loan companies. Bankrolled Yves Saint Laurent 1960s; later bought, opened 22 banks. Sold to First National Bank of Atlanta, became major shareholder. First National merged with Wachovia 1985. Still owns stake worth $525 million. Other investments: insurance, lumber. Owns approximately 90 horses on farm in Thomasville, Ga; hasn't missed a Kentucky Derby in over 35 years.

Robert Friedland

$800 million

NEW **Mining.** *Singapore.*
54. Married

World's biggest mining promoter now busy in Mongolia. Chicago-born, made first fortune after stumbling onto one of the world's biggest nickel deposits while searching for diamonds in Voisey's Bay, Newfoundland. Sold Diamond Fields Resources in 1996 for $3.1 billion. "Toxic Bob" now touting copper and gold deposits discovered in Mongolia by his Nasdaq-listed Ivanhoe Mines.

BY THE NUMBERS

The oldest member of The Forbes 400:

Max Fisher, 96

Anne Getty Earhart

$775 million

Inheritance. *Laguna Beach, Calif.*
52. Married, 2 children

Metals promoter **ROBERT FRIEDLAND** really digs Mongolia. His Ivanhoe Mines is busy rooting around for copper and gold.

Claire Getty Perry

$775 million

Inheritance. *San Francisco.*
50. Married, 4 children

Caroline Marie Getty

$775 million

Inheritance. *San Francisco.*
46. Single

Daughters of George Getty (d. 1973), elde son of oilman J. Paul Getty (d. 1976). Ea got $400 million after 1986 sale of Getty C to Texaco. Now investing privately and kee ing low profile, although known for su porting conservation causes, beat-Bus movement.

Max Fisher

$775 million

Investments. *Franklin, Mich.*
96. Widowed, remarried; 5 children

Oldest member of The Forbes 400 started father's oil business in 1930s. Moved into r fining, sold to Marathon Oil 1959; lat swapped shares with US Steel for $150 m lion. Still invests, sits on boards of Comeri Sotheby's. Active in Detroit redevelopme philanthropy: Detroit Symphony moved in Max Fisher Music Center last fall.

T. Boone Pickens Jr.

$750 million

NEW **Oil and gas, investments.** *Dalla*
76. Twice divorced, remarrie
5 children

Native son graduated from Oklahoma St U. with geology degree; worked for Phili Petroleum for 3 years before striking o on his own. Founded Mesa Petroleum 1956 with $2,500. Produced plenty of and gas, lots of debt. Sold to Richard Rai water *(see)*. Made name in the 1980s high-profile boardroom brawler, attem ing takeovers of Gulf, Phillips, Unocal. W old Mesa veterans runs fund manageme company BP Capital. Also sits on top lucrative water rights in West Texas. Ga $500,000 to the Swift Boat Veterans Truth, 527 group challenging John Kerr war record.

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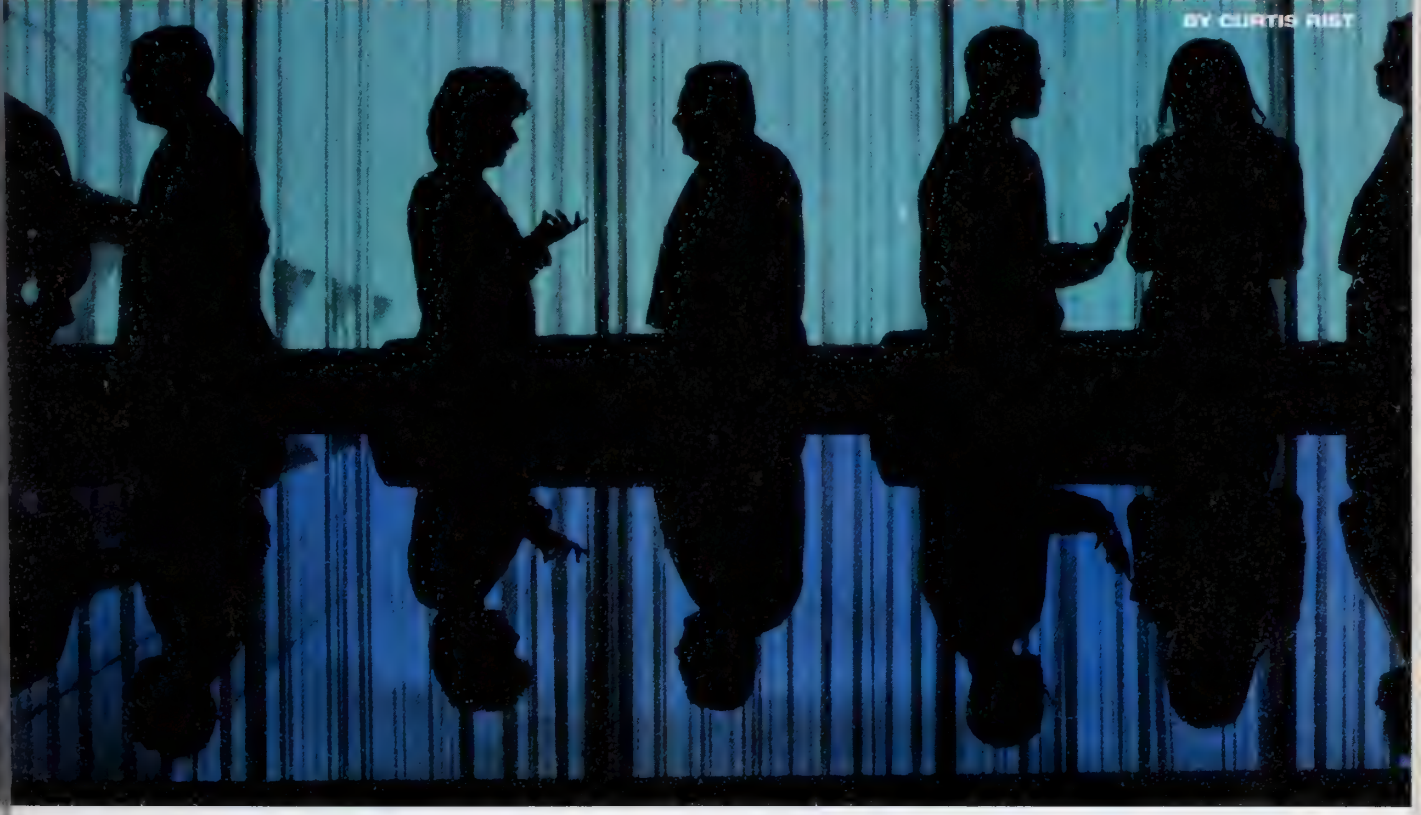


In terms of corporate meetings with a theme, one high-powered New York publishing company thought it had done everything: outdoor barbecues, art walks, trips to the desert, "you name it," says Rachel Sacco, president and chief executive officer of the Scottsdale Convention & Visitors Bureau in Arizona. "They wanted something new and different, and looked to us to help create what that would be."

CVB EXECUTIVES READY TO WORK FOR YOUR COMPANY

In Boston this past July, the Convention & Visitors Bureau Advisory Board met at a breakfast roundtable to discuss the many ways that CVBs can best help corporations plan meetings and events, and guarantee a return on their investment. Highlights of this timely conversation appear on the following pages.

With some careful thought, Sacco and her team developed an activity they thought might bring the meeting to a new level. "We worked on a program that focused on who the participants would be," she says. "Most of them were Type-A women, typically very fit, and lacking both in time as well as a feeling of being connected with themselves and with one another." To help them, the convention & visitors bureau organized a dawn hike to the top of Arizona's splendid Pinnacle Peak. Along the way, Native Americans offered blessings to the group, accompanied by traditional flute and gentle drumming. At the summit, a shaman spoke to them about the need to nurture themselves and give back to the world of business, and the women were given special journals to write in during a period of meditation that followed. "Walking down the mountain when it was over, we had women in joyful tears, and women with radiant faces," says Sacco. "The publishing company said it was an amazingly profound experience for them, and so far beyond what they imagined could be accomplished in a corporate retreat that they were astounded."

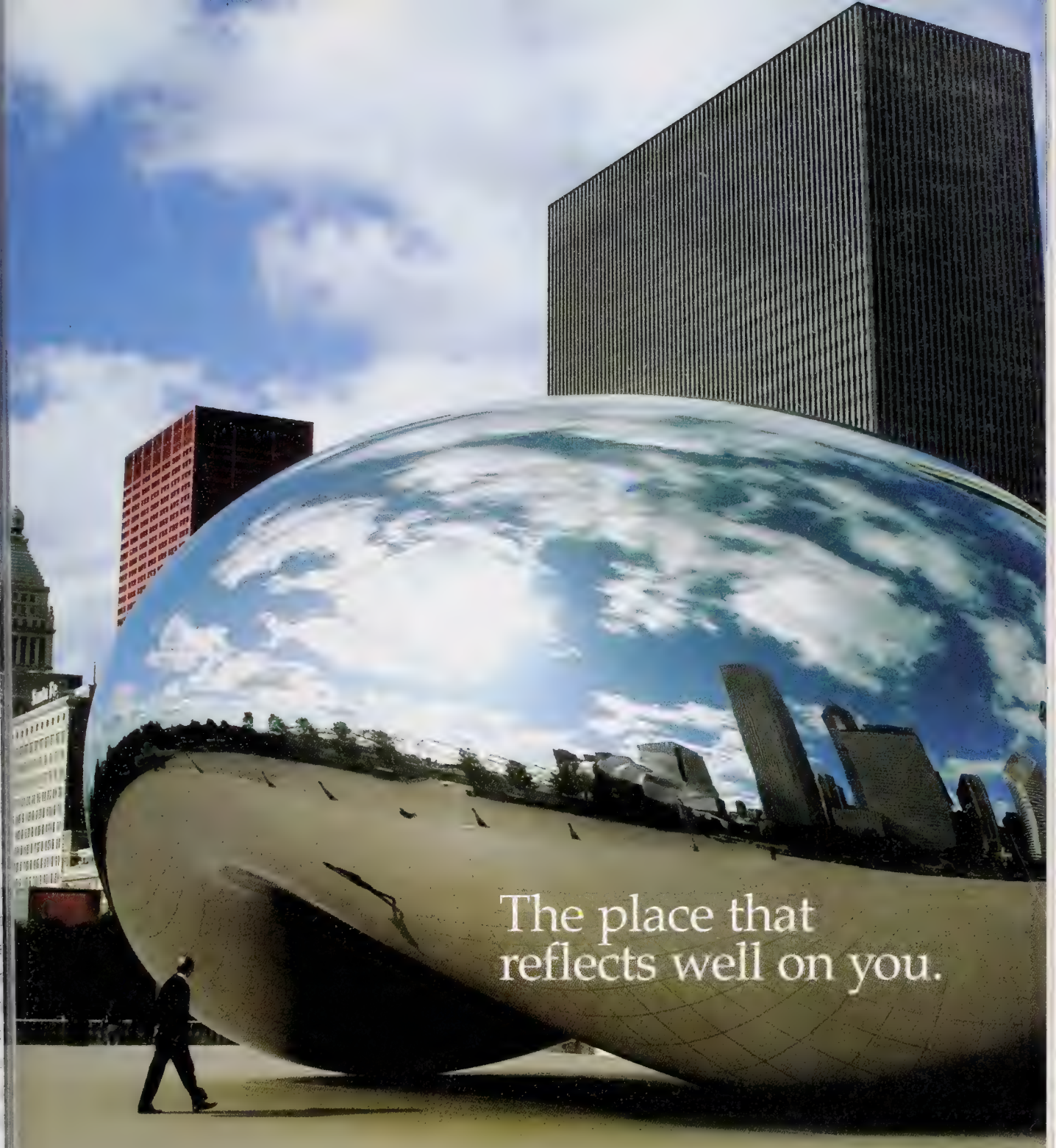
Astonishing to corporations, perhaps, but for a convention & visitors bureau—better known as a CVB — this is business as usual.

ENORMOUS UTILITY AT NO COST

Long known to professional event planners, convention & visitors bureaus remain one of the best-kept secrets in the world of corporate meeting planning. "Many people think we're connected to the government or some other agency, and are somehow unapproachable," says Patrick B. Moscaritolo, president and CEO of the Greater Boston Convention & Visitors Bureau. As a result, nearly two-thirds of all corporate meetings and events are planned without the help offered by a CVB, according to a recent survey by *Convention & Meetings* magazine. Overlooking a CVB, however, can make planning an off-site meeting far more difficult. "We offer creative solutions to meeting planners, one-stop shopping in terms of dealing with destination, and can save time an money to maximize the return on a investment," says Moscaritolo. "But th best part is the cost: Our services a absolutely free."

Overall, the meeting planning industr is an enormous one, with global sales more than $100 billion each year an growing, according to the trade associa tion Meeting Professionals Internation (MPI). Face-to-face events continue deliver the greatest return on investme over other customary marketing too including advertising, according to a annual survey of U.S.-based corpora marketing executives conducted by glob al event marketing agency The George Johnson Company and the MI Foundation. "This data expresses a industry confidence in the use of even as a strategic and efficient business too which we foresee growing only strong as our economy and general corpora health continues to recover," says Hug Lee, MPI's chairman.

Critical to this growth, says Lee, is th



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Spurgeon Richardson
President & Chief Executive Officer
Atlanta Convention & Visitors Bureau

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President & Chief Executive Officer
Austin Convention & Visitors Bureau

"Corporate groups want to connect to the heart and soul of a destination and feel like they're part of the scene, rather than just have their group crowded into a conference room day and night. That's something that we as CVBs can deliver. We can help corporate meeting planners become experts at delivering a destination to their group and making the experience both memorable and worthwhile."

CVB. "When you look at the question of what's driving your meeting today and how your different supply chains can help you, you realize that the CVB is an essential part of the equation," he says. "They deliver knowledge quickly, help build the trust needed to create a great meeting, and can do this in a short period of time. That's what you need to create meetings that have a great return on investment."

THE MODERN CVB

First begun more than a century ago, convention & visitors bureaus can be found in just about every region of the country — and around the world, as well. The International Association of Convention & Visitor Bureaus, or IACVB, currently has more than 500 CVBs as members in 30 countries. Funded in part by local hotel taxes, CVBs are able to provide their services for free and have a mandate to bring people to their specific destinations. "We do not represent specific hotels or restaurants or other venues; instead, we represent them all," says Spurgeon Richardson, the president and chief executive officer of the Atlanta Convention & Visitors Bureau. "As a result, we're the single best source for unbiased help in our area."

Because of this objective, no-cost approach, CVBs can fill important functions. "We're the liaison to the destination," says Deborah Sexton, president of the Chicago Convention and Tourism Bureau, a role that is becoming increasingly important. "We've found from our focus group research that the travel departments of major corporations have shrunk — but the demand for their services has actually increased," says Sexton. Because corporate meeting planners are operating with a shortage of time, "we make a practice of giving them very fast turnaround on information as it relates to our convention facilities and/or any of the hotels. That way, one person can analyze it, and make a decision quickly."

As independent organizations, convention & visitors bureaus around the country and around the world vary in the specific strengths they have that will help a corpo ration plan a meeting. All are dedicated t helping businesses achieve their goal however, and all are dedicated to becom ing a single source for all your informatio needs. "Your business is our business, an your success is our success," says Micha Gehrisch, president and CEO of th International Association of Convention Visitor Bureaus. Here are examples of way in which CVBs can help your compan achieve its goals.

AUSTIN, Texas

The single most important piece advice when planning a corporate meetin or event is to see the city in person, say Linda Atkins, the convention service director for the Austin Convention & Visitor Bureau. "It gives you a completely differe perspective once you've visited the cit experienced the location and walked th space." As the "Live Music Capital of th World," Austin draws a great diversity companies seeking to plan corporat meetings, and the CVB has developed useful timeline for some of the major event

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Deborah Sexton
President
Chicago Convention and Tourism Bureau

"Technology has greatly changed our ability to assist corporations. In the past, they might have feared that if they called us they would have been inundated with a lot of useless information. Today, we're able to focus on exactly what they're asking for, whether it be hotels or restaurants or special venues. We'll contact only those that they're interested in, and the information we send them will help them make their decisions quickly."

Patrick B. Moscaritolo
President & Chief Executive Officer
Greater Boston Convention and Visitors Bureau

"Two words describe our goal: exceeding expectations. Our experience has been that many corporate planners don't understand the structure of CVBs. Their first reaction is that we're government agency, and they doubt that we know how to deliver services quickly. Then the find out that we're a private, nonprofit entity, and that we're there solely to deliver services for them. That opens up the beginning of a whole new experience."

that need to be planned. While this is not an all-inclusive list, "it does give you an idea of things you need to do to make your meeting run smoothly," says Atkins. "A CVB can help you make the right choices, and create a workable schedule."

Six months before the meeting:

- Establish meeting dates and location
- Establish meeting objectives and preliminary budget
- Submit requests for proposals to CVB

Four months before the meeting:

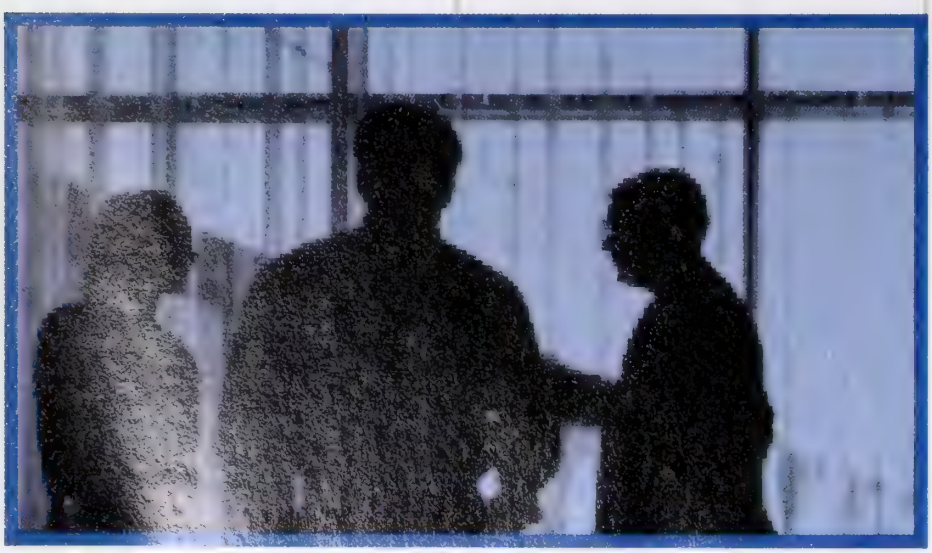
- Negotiate and sign contracts with facilities, airlines, hotels, transportation companies, other vendors
- Appoint a planning committee
- Draft marketing and promotion plans

Three months before the meeting:

- Select topics and speakers
- Begin registration process
- Hire entertainment

Two months before the meeting:

- Mail promotional materials
- Determine on-site administrative needs computers, signage, copiers, fax, etc
- Hire temporary personnel



CHICAGO, Illinois

The job of a CVB, says Deborah Sexto president of the Chicago Convention a Tourism Bureau, "is to make sure corpora meeting planners understand what's ava able in a destination." That way, s believes, "they can make the best de sions about hotels, conference rooms a setups for presentations, as well as facilit that further their corporate goals."

The Chicago CTB also provides inf mation through the Internet that eas the meeting-planning process, such the "Meet in Chicago" Web site t highlights the activities available at a particular time. "If people want to go an exhibit, for instance, the Web site let them know where it's being held, a what the exact hours are," says Sext The goal is to help create interest in meeting itself by making the city m

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Scottsdale, AZ

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Denise Rhodes & Robert Cavanaugh
Washington, DC

About to loosen their collars.

Michael D. Gehrisch
President & Chief Executive Officer
International Association of Convention & Visitor Bureaus

"As independent organizations, convention and visitors bureaus around the country and the world vary in the specific strengths they have that will help a corporation plan a meeting. Yet no matter what the specifics, they are all dedicated to helping companies produce successful events — whether it's a board of directors meeting that involves 10 people, or a citywide convention that involves 10,000."

Jonathan D. Walker
President & Chief Executive Officer
Metropolitan Tucson Convention & Visitors Bureau

"When corporate meeting planners come to a new destination, there are a lot of things that they just don't know about. It's our responsibility as a CVB to suggest things — based on our experience of what works well and our understanding of what their needs are. If their staff had to spend the time and effort to do these things, it would cost them a great deal more time and money."

accessible. "If an attendee to a corporate event is excited about the location where a meeting is being held, they're more likely going to make a commitment to go — and will be more energetic when they're there."

To further assist corporations, the CTB has become proficient at organizing events quickly, often within six months or less. In the past, off-site meetings tended to be organized a year or more in advance. In recent times, however, the planning stage is often compressed to six months or even less. "That means that everyone within the travel and meeting planning department of a corporation is pressed for time," says Sexton. "Our job is to take something that could be very hectic — specifically, planning a meeting on short notice — and making it more bearable for everyone involved."

The CTB also compiles information about available hotels and conference facilities and gives it to companies so they can make decisions quickly. "We're the liaison to the destination," says Sexton. "We can help them focus on the possibilities that suit them best, without them having to sort through this mountain of information themselves."

GREATER BOSTON, Massachusetts

One of the best ways a CVB can assist a corporate meeting planner is by helping him or her arrange special events i memorable locations. "That's somethin we specialize in at the Greater Bosto Convention & Visitors Bureau," say Patrick B. Moscaritolo, the organization president and CEO. While the CVB als helps companies find hotels and work with them to book conference or conven tion space, the bureau excels at findin them unique venues. "In many case those who plan meetings say that aft two or three days of steady work, the want to do something special that take them outside the convention center o outside the hotel," says Moscaritolo. "W make sure we help them find it."

Boston itself is filled with historic site and interesting possibilities for such a event, from the New England Aquariu to the deck of the *U.S.S. Constitutio* One of Moscaritolo's favorite place however, is Fenway Park, home to th fabled Red Sox. Here, the baseball sta dium owners have created a new sea ing area overlooking the entire field, wi the Boston skyline beyond. "It's a gre environment and a great vista," say

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Stephen B. Richer
Executive Director
Mississippi Gulf Coast Convention & Visitors Bureau

"Although CVBs are well known in the world of associations and trade shows, a great number of corporate meeting planners have become accustomed to working only with hotels. We can offer them something additional, however. We can offer them unbiased opinions, as well as guidance in planning events and choosing activities. The best part of this is our cost: We're a totally free service. You can't afford not to give us a call."

William C. Peeper
President & Chief Executive Officer
Orlando/Orange County Convention & Visitors Bur

"The advantages of using a CVB can be boiled down to a few simple truths. We provide one-stop shopping in terms of planning a meeting. With one phone call, you can save tim money in planning a meeting. Besides being the only official agency serving meeting plan we are also the most knowledgeable about the area. We also offer special services that n a planner's job so much easier. Finally, our services are free, including such things as me and greeting arriving guests at the airport. No one knows the local area like a CVB."

Moscaritolo. Recently, the CVB helped arrange numerous special events on the site, from picnic lunches to more formal dinners — including more than 20 events held in conjunction with the Democratic National Convention. Special events at the stadium can also include batting practice during special periods, or buying group tickets at the last minute for a corporate group to attend a game. "This is easy for us to do, especially since the senior vice president of the Red Sox is on the board here at our CVB," says Moscaritolo.

This sort of interconnectedness is a prime example of why it makes sense to work with a CVB. "The network and the relationships we have with organizations in our area can't be beat," he says. These extend to hotels, airlines and even bus companies. "Very often, senior people in these organizations are also involved with bureaus, not just in Boston but around the country," says Moscaritolo. "They understand the need to help sell the city or the destination, and go the extra mile to make things happen."

GREATER FORT LAUDERDALE, Florida

On occasion, a meeting will be of such a large scale that no single hotel or resort could possibly manage all the details alone. One such event is the upcoming meeting of the Organization of American States in Fort Lauderdale, which will bring together all the presidents and prime ministers from North and South America in June 2005. "Security is obviously very important in selecting a site," says Dennis Edwards, the senior vice president of the Greater Fort Lauderdale Convention & Visitors Bureau. "As an organization, we were able to bring together all the various agencies and organizations in Broward County, from the city police and fire departments, to the county sheriff's office, to state and federal officials, including the FBI, and even the Coast Guard," he says. "We can take a broader view than a hotel and resort, and have more clout to be able to coordinate efforts to make an event of this magnitude happen."

In helping a company plan a me the bureau is accustomed to offering sonal care. "It starts at the very b ning, when a meeting planner is lo for a destination," says Edwards. assist them in finding hotels that their requirements, attaining prop and, once they've narrowed dow field, bringing them down here and sonally escorting them for on-site in tions. We help save a lot of time effort, and spare them redundancy.

Once a venue has been selecte Greater Fort Lauderdale CVB con to offer help. For larger meeting involve more than one hotel, the b offers online conference and hotel tration, "which turns this into a less, one-step operation," Edwards. Beyond hotel logistics bureau works to make special ev possibility. One recent meeting pharmaceuticals company culm with a fireworks display and a n rable party on the beach. "As ha again and again, we were the ke tact to secure the needed park p

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W. E. "Mac" McLaughlin
President & Chief Executive Officer
Palm Beach County Convention and Visitors Bureau

"One of the things that a CVB can do is expand the attendance at a particular event b arranging activities that interest people and help companies emphasize the goals of t meeting. In Palm Beach, for instance, we recently arranged for a favorite department store to be opened up two hours earlier so conference attendees could go on a privat shopping spree. If we know your interests, there's nothing we won't do to satisfy you.

Melvin Tennant, CAE
Executive Director
San Antonio Convention & Visitors Bureau

"The increased use of e-mail and the Internet means that people who deal with each other every day might rarely meet, and when they do — in the form of a corporate meeting or event — it's even more important that the experience is a positive and productive one, in every way. CVBs play an important role in brokering these interactions between businesses and destinations, and in making sure that interaction is a success."

and liquor license and made life a whole lot easier for the meeting planner," says Edwards. "We're able to do this because of our history and rapport with the various government agencies; it's all part of our job."

INDIANAPOLIS, Indiana

For nearly three decades, the Do It Best Corp., a $2.8 billion distributor of home improvement products based in Fort Wayne, Ind., has been heading to Indianapolis twice a year for conventions. Recently, the company brought 14,000 attendees, an organizational task that Rosie Wilson of Do It Best Corp. calls "challenging, to say the least." Her task as the company's meeting and market planning manager is made easier by enlisting the Indianapolis Convention & Visitors Association (ICVA). "With an event this large, not once but twice a year, I make sure that I call the association first for help in organizing everything," says Wilson.

With the association pitching in, Wilson is able to keep informed about new restaurants and new hotels opening up in the city, as well as new entertainment venues. "Because of the logistics involved, it always makes sense for us to start with the association, then expand from there on our own as we need to," she says. "They're willing to do just about anything for us." Bob Bedell, ICVA president and CEO, says that while Do it Best Corp. ranks in the top tier of large conventions coming to the city, smaller meetings are provided the same level of care and attention. "Meeting ners continually tell us they appreciat attention to detail. That is intentional, a fact, the way we do business. Sm large, all groups receive extra-mile ser

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Carole Moody
President
St. Louis Convention & Visitors Commission

"Do companies in general know what an organization such as ours can do for them, and all for free? I think it definitely comes as a surprise to many of them when they find out, especially for the executive assistant who has suddenly been tapped to plan a corporate event. Give us a call. We can provide so many services that will make life much easier, and save you money."

plex, known as America's Center. This puts it in a league all by itself in terms of the breadth of its mission.

In addition, the St. Louis CVC is dedicated to giving its clients the sort of personal attention that many larger cities might be unable to do. One large hardware store chain, for instance, continues to come to the city for its annual convention "and we have developed a greater understanding of what their needs are," says Carole Moody, the president of the St. Louis CVC. The commission has worked to create a giveaway program as an incentive for members to register early online, and also makes the company's presence known throughout the city. "Their corporate colors are red and white, and we're going to plant red and white flowers in the planters in front of our convention center," says Moody. In addition, the commission will post a convention volunteer team at the complex, wearing the corporate colors. "We pride ourselves on paying attention to all clients, large and small," says. "All business matters to us."

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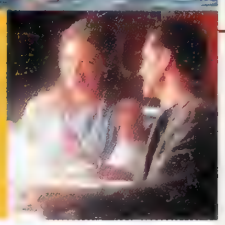
ST. PETERSBURG/ CLEARWATER AREA, Florida

While planning the annual Nat Product Show for her company, DuBois, an executive assistant with Minnesota-based Fastenal Comp began to organize the pieces for would be a giant undertaking. explains, "We have over 1,450 loca throughout the U.S., Canada, Me the Dominican Republic, Puerto and Singapore, and one employe the store manager from each loc qualifies to attend, along with di managers, regional vice presid national sales, national accounts. year, we had 2,350 attendees a show, and we had about 185 booth up for our employees to walk ar and learn from."

The task of organizing this would been daunting for anyone, but Du had an ally: the St.Petersburg/Clear Area Convention & Visitors Bureau.

When DuBois first organized the vention four years ago, she gave CVB a call and has called them year since. "I find them helpful, tomer friendly and efficient in being to organize everything from hotel r to conference space," says Du "Our event is so large that it's more citywide affair than confined to one cific hotel, and the CVB really help pull all the various pieces tog



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Rick Antonson
President & Chief Executive Officer
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"Convention & visitors bureau organizations provide companies with three essential ingredients in managing their meetings and events: saving time and money, pure efficiency and incredible, objective local knowledge. Because of our connections within community, we are able to make arrangements with an efficiency that no one else can match. We can also move swiftly, often within hours and almost always within 24 hours, to give meeting planners all the information they need to make decisions."

're able to work as a team to make th conference happen."

Carole Ketterhagen, the CVB's exec- e director, believes the goal of her eau is to assist meeting planners n the beginning of the process, and y with them right through the suc- sful conclusion of a meeting. "Our eau looks at all meetings with the he interest, whether it's something e like the Fastenal convention, or nething smaller, such as a board of ctors meeting that brings in 15 to people," says Ketterhagen. "Our job bring people to our destination."

that, the area certainly helps draw ple in. Top on the list of attractions are beaches, she says — beginning with fabled Fort DeSoto Park and Caladisi d, which are consistently rated as ng the top beaches in the U.S. In addi- there are other highlights, such as the ador Dali Museum, the Museum of Arts and a world-class collection of courses. "We've also got plenty of r activities, from antiquing, to deep-sea ng, to nature-based activities such as king: There really is a full directory of sions for people."

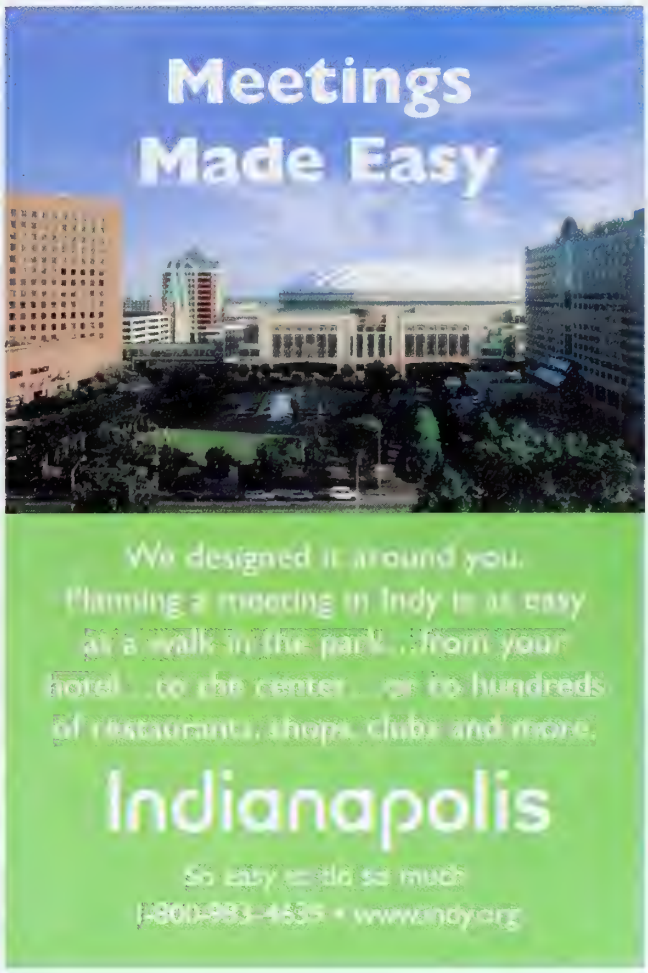
helping companies, Ketterhagen's osophy runs straight to the point. us, planning a meeting isn't a job," says. "It really is a way of life."

N ANTONIO, Texas

terms of its heritage and overall eal, San Antonio ranks as one of the on's most thriving destinations for corporate meetings and retreats. The Alamo, built in 1718, lies in the heart of the city, and the remnants of a series of Spanish missions can still be found along the banks of the San Antonio River. "Particularly in this part of the country, you won't find many cities with a 300-year-old architectural heritage," says Melvin Tennant, CAE, the executive director of the San Antonio Convention & Visitors Bureau. "When you combine this with the cultural diversity found here, not just the Hispanic culture but a very strong German influence and other cultures as well, you have a unique backdrop to a wonderfully enriching experience."

While San Antonio itself does not rank as a large corporate center, its reputation for cultural and leisure diversions has made it a destination of choice for corporate meeting planners. One large bank recently visited the area to plan a meeting, and was impressed by what they discovered. "After taking a look at six or seven hotels and some off-site

First begun more than a century ago, convention & visitors bureaus can be found in just about every region of the country – and around the world, as well.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Al Hutchinson
Director of Convention Sales and Services
Virginia Beach Convention & Visitors Bureau

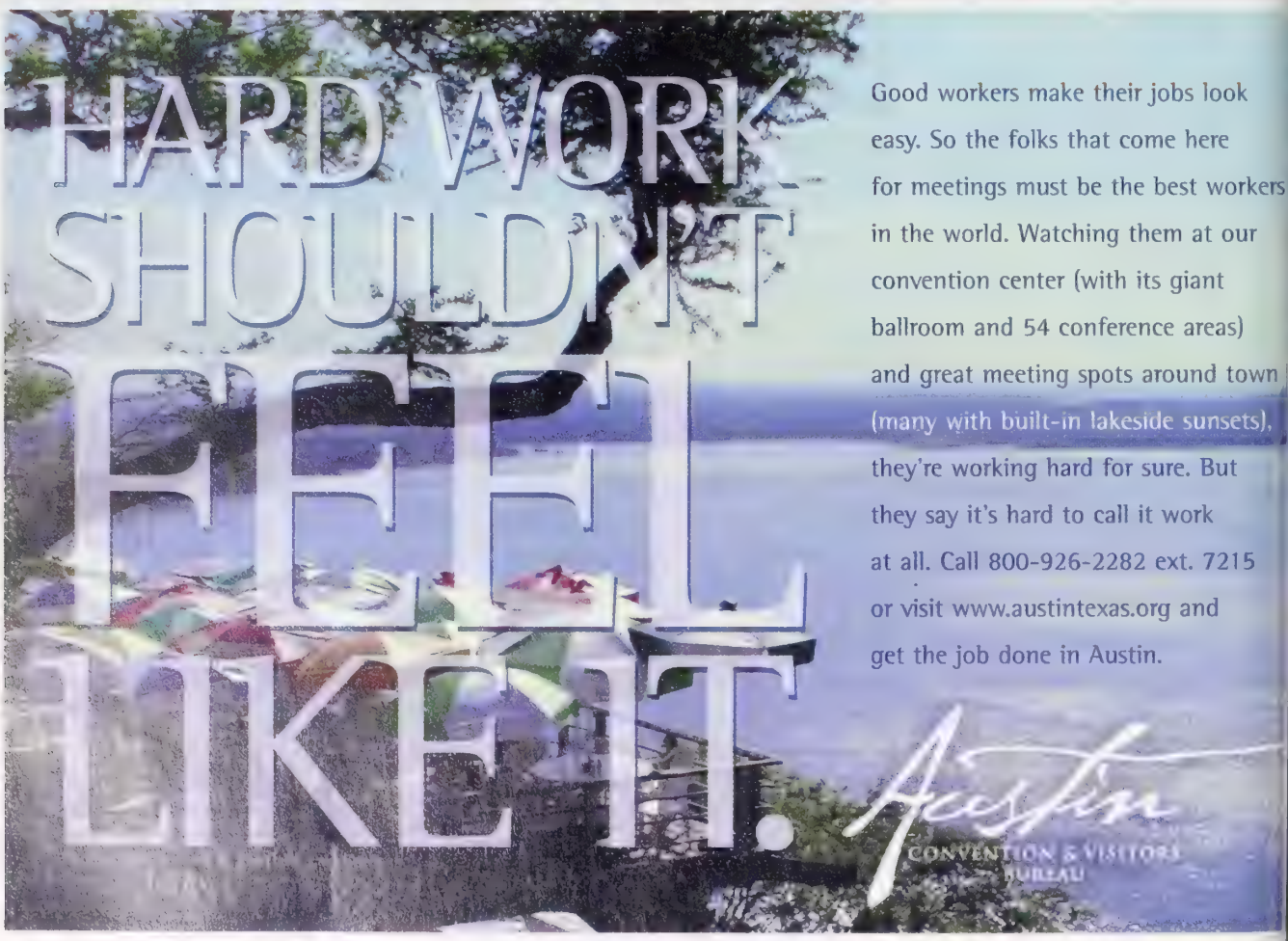
"We are a clearinghouse for the meeting planner interested in bringing business to our area. The CVB works with clients to determine what type of hotel a company is interested in, based on amenities and price. We find out which hotels match their needs, then contact the hotels for availability. We save planners time and effort, and let them know about ways of doing things they may never have imagined."

venues, they saw the possibilities and decided to double the size of the meeting they would hold here," says Tennant. Similarly, a corporate meeting planner for a large medical symposium recently visited the area and expanded its meeting plans, especially after an introduction to the enormous health-care/biomedical presence in the city. "They saw everything in one day, and a week later requested contracts for the convention center as well as hotels," says Tennant. "Because we have so much to offer, we do very well in the corporate meetings market."

One element that is crucial to San Antonio's appeal is the CVB itself, which helps companies arrange site inspections and expedites the search process for hotels, restaurants and other venues for meetings. "We connect meeting planners with the hotels and conference centers that we think can serve them best," says Tennant. "But we don't stop there. We continue to work with them during the entire planning process, to make sure they're getting everything they need, quickly and efficiently as possible."

SCOTTSDALE, Arizona

With unsurpassed attention to pers al service and detail, the Scottsd Convention & Visitors Bureau prides it on the degree it will go to assist corpor clients in bringing events to the a "There is no such thing to us as a 'sm piece of business," says Rachel Sac the president and chief executive off of the Scottsdale Convention & Visi



reau. "We focus on giving individual ention to the groups that come here, matter what their size."

hat level of service begins during the site ection process itself. "Our staff will greet eting planners at the airport and accom- y them on site inspections to all the els and other venues," she says. "Many s won't offer that sort of service unless meeting is going to be a large one, but ll do that whether a group is going to be people or 25 people." This allows the B to assist clients at every stage of their ning process, and help in making selec- s where possible. Recently, says Sacco, heeting planner for a major credit card pany arrived in town. Her site inspec- s for the day had been planned based n her set of meeting specifications. en she arrived and began to see what ttsdale could offer, she changed her d about what she wanted to see. en it became clear what she did want, we took a 20-minute break and completely changed the direction of the site inspection for the rest of the day," says Sacco. "The meeting planner was so awed by what we were able to do on short notice that she decided to bring her meeting to Scottsdale." In addition, the CVB has committed itself to giving rapid turnaround on specs for meetings. "We'll guarantee a 24-hour response," says Sacco.

In addition to helping manage these logistics, the bureau assists with other details of organization, including registration, pre-attendance mailings and distribution of its award-winning destination guides for free. The bureau staff, because of their destination expertise, can help clients coordinate a spectacular special event from Native American spiritual lectures to a rejuvenating afternoon at a spa. "We'll do anything to help make a meeting a success, even beyond the expectations of the meeting planners themselves," says Sacco.

TORONTO, Ontario

In terms of diversity, Toronto ranks on par with some of the world's greatest cities. Home to more than 100 cultures and dozens of languages, Toronto represents international cosmopolitan culture at its best. No wonder then that Toronto is an increasingly popular business destination for corporate meetings and events, especially considering its central location for most of the U.S. market. "We're 90 minutes away by air from 60% of the U.S. population," says Susan Carter, vice president of marketing and communications for Tourism Toronto.

To help corporate meeting planners with their tasks, the organization helps arrange site inspections and then works to narrow the choices based on the price and availability for everything from meeting space to hotel rooms. The bureau also helps with online registration for events, and uses sophisticated techniques to increase attendance.

They brought out the

creativity in all of us"

Doug Amann
Senior Director Group Leader
Conventions and Meetings Strategies
Pfizer Pharmaceuticals Group

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WALT DISNEY WORLD SWAN
WALT DISNEY WORLD DOLPHIN

Take your next meeting to a *creative place*

Bob Bedell
President & Chief Executive Officer
Indianapolis Convention & Visitors Association
"Meeting planners continually tell us they appreciate our attention to detail. That is intentional and in fact, the way we do business. Small to large, all groups receive extra-mile service."

For corporate clients, the bureau can offer "red carpet service" for companies, to increase their profile in the city. Microsoft, for instance, recently took advantage of this for a corporate event, says Carter — which begins with a welcoming the moment they step off the plane, and continues through to departure. In addition, the tech-savvy Toronto makes it possible for corporations to screen sophisticated audio/visual presentations during meetings, with minimal fuss. "Most of these are also wireless, which makes things a great deal easier," says Carter.

Perhaps the biggest advantage, however, is right outside the hotel and conference room: Toronto itself. "We are always advocates of mixing business with pleasure, and that's easy to do in Toronto," says Carter. "There are countless restaurants, shows, music events and so much more — making this one of North America's great and most interesting corporate destinations."

VIRGINIA BEACH, Virginia

By planning an event with the Virginia Beach Convention & Visitors Bureau, corporate meeting planners know they're g ting far more than just hotel and conferen space. They're also getting access to t range of activities and off-site venues th make this coastal resort unique. "As CVB, we try to provide them with off-s events and opportunities, activities spouses and families, and an assortm of things that can make a meeting mem rable," says Al Hutchinson, director of co vention sales for the Virginia Beach CVB

This can include golf at some of world-class golf courses in the area, in ac

BOSTON

You know it as America's Walking City; the birthplace of the American Revolution; a city firsts; an educational and medical mecca. But Boston's become much, much more. If you lik Boston the way it was, **you're going to love what we've done with the place.**

- **NEW Hotels:** Fifteen hotels have opened since 2002, with five more opening and three more scheduled to break ground this year.
- **NEW Convention Center.** The 516,000 sq. ft. Boston Convention & Exhibition Ce opened in June.
- **NEW Roadways:** The "Big Dig" connecting the south and north parts of the city, t airport, and the transcontinental highway I-90 is completely open!
- **NEW Airport:** Logan International Airport has completed its renovation & expan with new roadways, new walkways, and a new international terminal.

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www.BostonUSA.com Greater Boston Convention & Visitors Bureau *Massachusett*

to a trip to the Virginia Aquarium. This is of the most popular settings for a cor- ate event, particularly for an opening eption for a meeting or a well-deserved well dinner. "This is an excellent location an event, and we can arrange lively ertainment." says Hutchinson. "The sts are free to dance, eat and take a at the museum exhibits." In addition, inia Beach is home to a spectacular temporary Arts Center, which further ands the possibilities.

eginning next June, the potential for inia Beach as a meetings destination grow even more with the opening of first phase of the Virginia Beach vention Center. Located just six blocks the ocean, this will contain 150,000 are feet of column-free exhibit space at ompletion in 2007, as well as the state irginia's largest ballroom. "In terms of amenities the convention center will it is unsurpassed," says Hutchinson.

WALT DISNEY WORLD SWAN AND DOLPHIN HOTEL, Lake Buena Vista, Florida

When planning a corporate meeting, large hotels can often provide a similar level of expertise that a convention and visitors bureau can. One standout in this respect is the Walt Disney World Swan and Dolphin Hotel in Lake Buena Vista, Fla., at the doorstep to Disney's fabled Epcot Center. With its enchanting Michael Graves architecture, the hotel that is managed by Starwood Hotels & Resorts Worldwide has captured the imagination of guests for nearly a decade and a half. The entertaining look, however, conceals a remarkable dedication to excellence in managing meetings for corporate groups.

With an increasing emphasis on providing sophisticated service and cutting-edge technology for business travelers, the hotel has moved to the forefront of the meetings industry. As a result, the Walt Disney World Swan and Dolphin has been voted into the "Hall of Fame" by *Meetings & Conventions* magazine, the only hotel in the Orlando area to be named, says Eric Opron, the hotel's director of sales and marketing. More than half of the hotel's business comes from corporate clients, many of whom return each year. "We perform many of the same tasks as a convention and visitors bureau for our corporate customers, by helping them to arrange a meeting or conference, and at the same time create a schedule that takes advantage of all the activities in the area," says Opron.

In terms of scale, the Walt Disney World Swan and Dolphin can manage any group, from large trade shows to small meetings involving boards of directors. The Swan has 758 rooms, and the Dolphin has 1,509 rooms. In addition, the hotel contains over 329,000 square feet of meeting space between them, which includes a 110,000-square-foot multipurpose convention/exhi-

bition hall. Best of all, however, is the unique atmosphere. "We have a very creative pair of buildings, in a very exciting environment on the Disney World property," says Opron. "We like to think that it helps people to come in and think outside the box. When business groups come here, we see people open up their minds. The Walt Disney World Swan and Dolphin literally foster an arena of creative thinking."

Funded in part by local hotel taxes, CVBs are able to provide their services for free and have a mandate to bring people to their specific destinations.

WYNN LAS VEGAS, Nevada

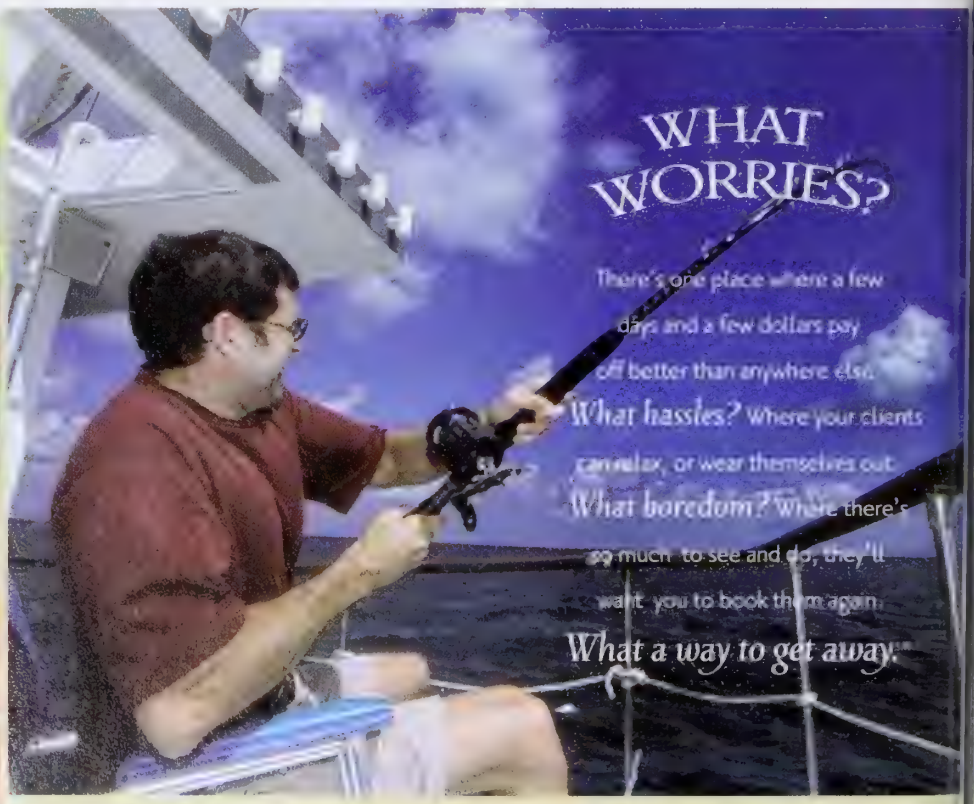
Las Vegas has long been a premier destination for business travelers seeking the best in service and amenities, and in April 2005 Wynn Las Vegas will meet and exceed the expectations of what has become a Las Vegas standard. "Wynn Las Vegas is a place that thrives on providing the ultimate experience for each individual guest," says Karolyn Graves, director of sales. "Every facet of Wynn Las Vegas was conceived to deliver personalized service for an incomparable experience. Our goal is to give you everything you need and want before you even know what it is."

The resort has a collection of the finest amenities for business meeting professionals. "Our Sales team is very experienced, and our whole focus is on the customer," says Graves. "Now, whether you are brand new, in meeting planning or a seasoned professional, we can help. We know the things that need to be asked, whether it's a meeting for 10 or a meeting for 1,000."

What distinguishes Wynn Las Vegas Resort and Country Club as a meeting destination is its ability to enclose its customers in what Graves calls a luxurious microcos

The generous-sized rooms and su have views of mountain landscapes, a f lined golf course, acres of lakes, cascad waterfalls or the Las Vegas Strip. The res prides itself on quiet architectural det that delight at every turn. The outd spaces are perfect for quiet reflection o lively event. The shopping esplanade a even the Ferrari-Maserati dealership o venues to wile away the moments betw conference sessions.

"We just want our guests to take i deep, relaxing breath, recharge a enjoy the experience.



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Mississippi Gulf Coast

Our goal is to make our customers sat-
d and make sure they're taken care of,"
s Graves.

CATING A CVB

or anyone planning on organizing a
porate meeting or convention, the
rnational Association of Convention &
tor Bureaus can offer useful advice. Its
e than 500 members can be found
oss the U.S., as well as abroad.
he best way to search for a CVB is
visit the organization's Web site,
w.iacvb.org. An online request for pro-
als will guide meeting planners through
process of selecting dates, determining
purpose of the meeting and beginning
et the parameters for a budget.
This is the first step in finding out what a
B can do for you," says Michael D.
risch, the organization's president and
f executive officer. "You'll be glad you
le it."

WEB DIRECTORY

Austin Convention & Visitors Bureau
www.austintexas.org

Chicago Convention & Tourism Bureau
www.choosechicago.com

Walt Disney World Swan and Dolphin
www.swandolphin.com

Greater Boston Convention & Visitors Bureau
www.bostonusa.com

Greater Fort Lauderdale Convention & Visitors Bureau
www.sunny.org/meetingplanners

Indianapolis Convention & Visitors Association
www.indy.org

San Antonio Convention & Visitors Bureau
www.sanantoniovisit.com

Scottsdale Convention & Visitors Bureau
www.scottsdalecvb.com

St. Louis Convention & Visitors Commission
www.explorestlouis.com

St. Petersburg/Clearwater Convention & Visitors Bureau
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Las Vegas Convention and Visitors Authority
www.lvcva.com

Mississippi Gulf Coast Convention & Visitors Bureau
www.gulfcoast.org

Orlando/Orange County Convention & Visitors Bureau
www.orlandoconvention.com

Virginia Beach Convention & Visitors Bureau
www.vbmeetings.com

Toronto Convention & Visitors Association
www.TorontoTourism.com

Wynn Las Vegas
www.wynnlasvegas.com

CORPORATE MEETING HOT SPOTS

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Chicago is a business center with a diverse, powerhouse economy. It is also a tourism center, with world-nowned shopping, dining, museums, rchitecture, theater, music and more. hen it comes to hosting a successful event, you can't beat Chicago, "The ity That Works." For meetings of all zes, Chicago offers diverse meeting cilities, a multitude of hotels, world-class dining and shopping, exciting ightlife and impressive attractions. For more information, visit us at www.choosechicago.com, or call 1-877-CHICAGO.

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Las Vegas means business. That may be paradoxical when our city is also known as the "Entertainment Capital of the World." Nonetheless, Las Vegas remains one of the most sought-after meeting destinations in the world. Our city boasts 130,000 hotel rooms and features three of the 10 largest convention centers in the country. Las Vegas totals more than 9 million square feet of meeting and exhibit space, enabling us to handle even more meetings, tradeshows and conventions than ever before. Most Las Vegas meeting facilities and properties are mere minutes from McCarran International Airport. And when the workday is finished, Las Vegas' enter-tainment options are endless. For more information, go to www.lvcva.com or call 877-VISITLV.

LASVEGAS

CORPORATE MEETING HOT SPOTS

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Great resorts and meeting facilities complement a surprising array of fine dining, spa, golf and high-fashion shopping options. Add world-class theme parks that provide extraordinary backdrops for social events for even the most sophisticated and you have all the elements for a great meeting. The Orlando CVB's award-winning team offers support from site visit to event planning, all free. See why the Orlando CVB says, "We promise great corporate meetings." Call 1-800-662-2825 or visit www.orlandoconvention.com and click on Orlando CVB.

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SAN ANTONIO, TEXAS

From the historic Alamo to the winding River Walk, San Antonio has charm to spare. Long known as a leisure destination, the city has emerged as a premier location for corporate meetings and events. San Antonio offers a broad range of state-of-the-art facilities, including the newly-expanded Henry B. González Convention Center — with hotel-quality ballrooms and meeting space, as well as 400,000 square feet of contiguous exhibit space. For more information, contact the San Antonio Convention & Visitors Bureau at www.sanantoniovisit.com, or call 1-800-ALAMO-07.

san antonio

SCOTTSDALE, ARIZONA

In today's high-stress, high-demand world, corporate meeting goers want more than just a successful business meeting or incentive program — they want an Experience (with a capital "E"). We at the Scottsdale Convention & Visitors Bureau can help achieve this, by guiding meeting planners through every aspect of the process, from site selection and event planning to boosting attendance. We can steer them to luxurious resorts and championship golf courses, as well as pampering spas and a vibrant arts and cultural scene. For more information, call 1-800-782-1117, or visit us at www.scottsdalecvb.com.

Scottsdale
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TORONTO, ONTARIO

A great event or meeting takes great planning. Why do it alone? Tourism Toronto understands your unique needs. A range of conference and tradeshow facilities totaling close to 4 million square feet makes planning a breeze. In addition, the city's vibrant cultural offerings make this a prime destination — as does its convenient location. Take advantage of Tourism Toronto's free, time-saving Booking Notice and Passkey services. To learn more, visit www.TorontoTourism.com, or call toll-free, 1-800-363-1990.

TORONTO

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Anticipation can be quite grueling. Fortunately, you don't have to wait any longer to book your meeting at Wynn Las Vegas. Las Vegas' newest destination experience invites your group to an incomparable, intimate experience.
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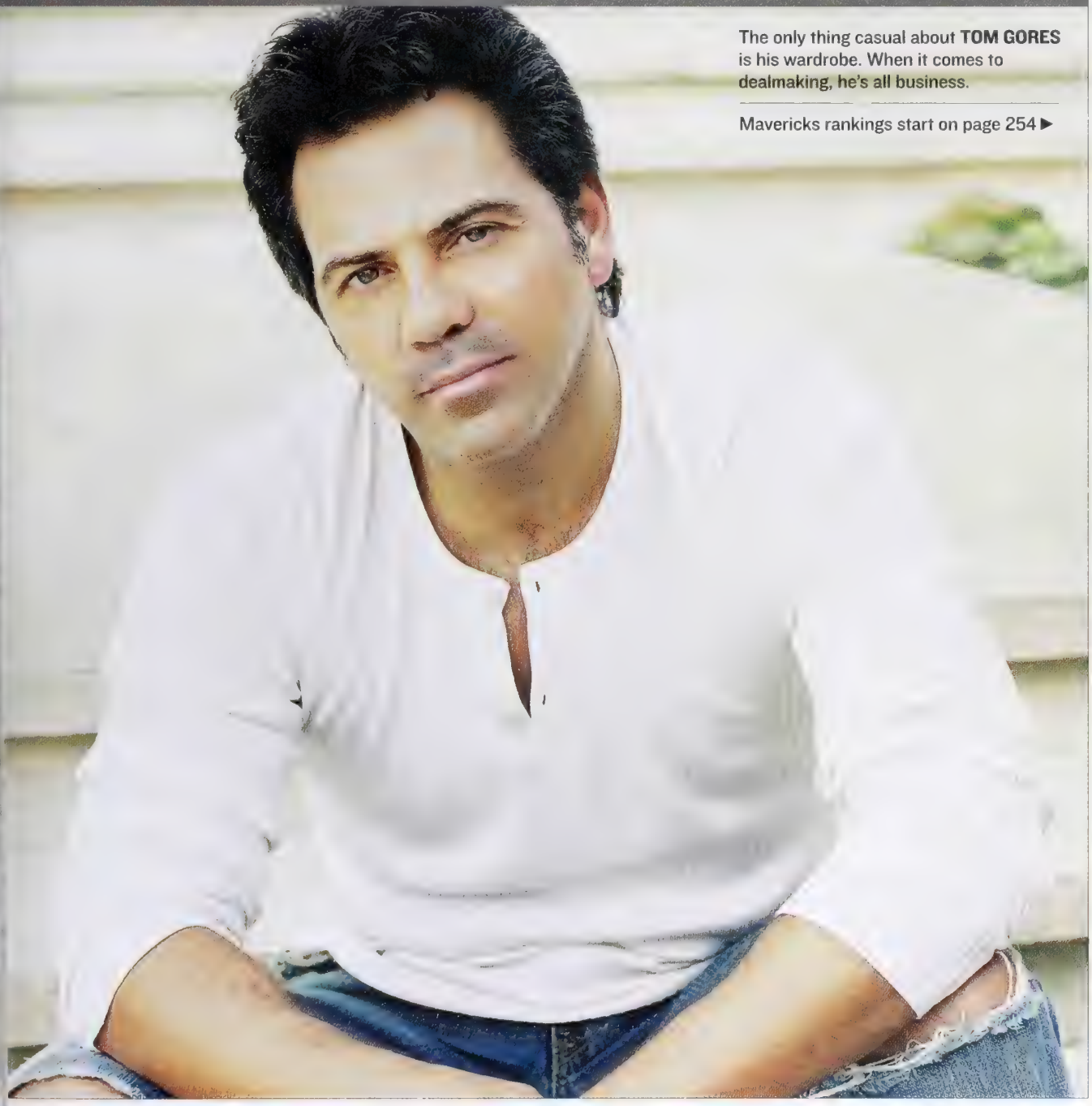
For group booking information, call 877.770.7077. Or visit us online at www.wynnlasvegas.com

Wynn LAS VEGAS

Mavericks

THESE ENTREPRENEURS HAVE A FEW THINGS IN COMMON: THEY'RE YOUNG AND ENTIRELY SELF-MADE. OH, YEAH. THEY'RE ALSO REALLY, REALLY RICH.



The only thing casual about **TOM GORES** is his wardrobe. When it comes to dealmaking, he's all business.

Mavericks rankings start on page 254 ▶

Pierre Omidyar

$10.4 billion

Ebay. *Henderson, Nev.; Paris, France.*
37. Married, 2 children

Former computer programmer launched online auctioneer Ebay in 1995. Today the world's biggest dot-com ($62 billion market capitalization), which lets consumers bid on everything from arcane Americana to Iraqi dinars. Still chairman but concentrates on philanthropy with a twist: he backs both nonprofit and for-profit companies engaged in "empowering individuals and enriching connections." His Omidyar Network invests in microloans to small business owners in developing economies and in open-source software. Once promised to donate all but 1% of wealth to philanthropy. Now says he will use his entire fortune to "do good."

Jeffrey Bezos

$4.3 billion

Amazon. *Seattle.*
40. Married, 3 children

Raised in Texas and Florida, computer science degree from Princeton. Worked back-office job at hedge fund operator; quit to sell books over the Internet from his Seattle garage. Took Amazon.com public in 1997. Survived the dot-com bust by offering discount pricing and free shipping, expanding business overseas. Amazon now the world's biggest virtual mall: $6 billion (sales) in books, cookware, music, clothes. Now he wants to go from cyberspace to outer space: founded Blue Origin to develop technology for commercial space travel.

Sergey Brin

$4 billion

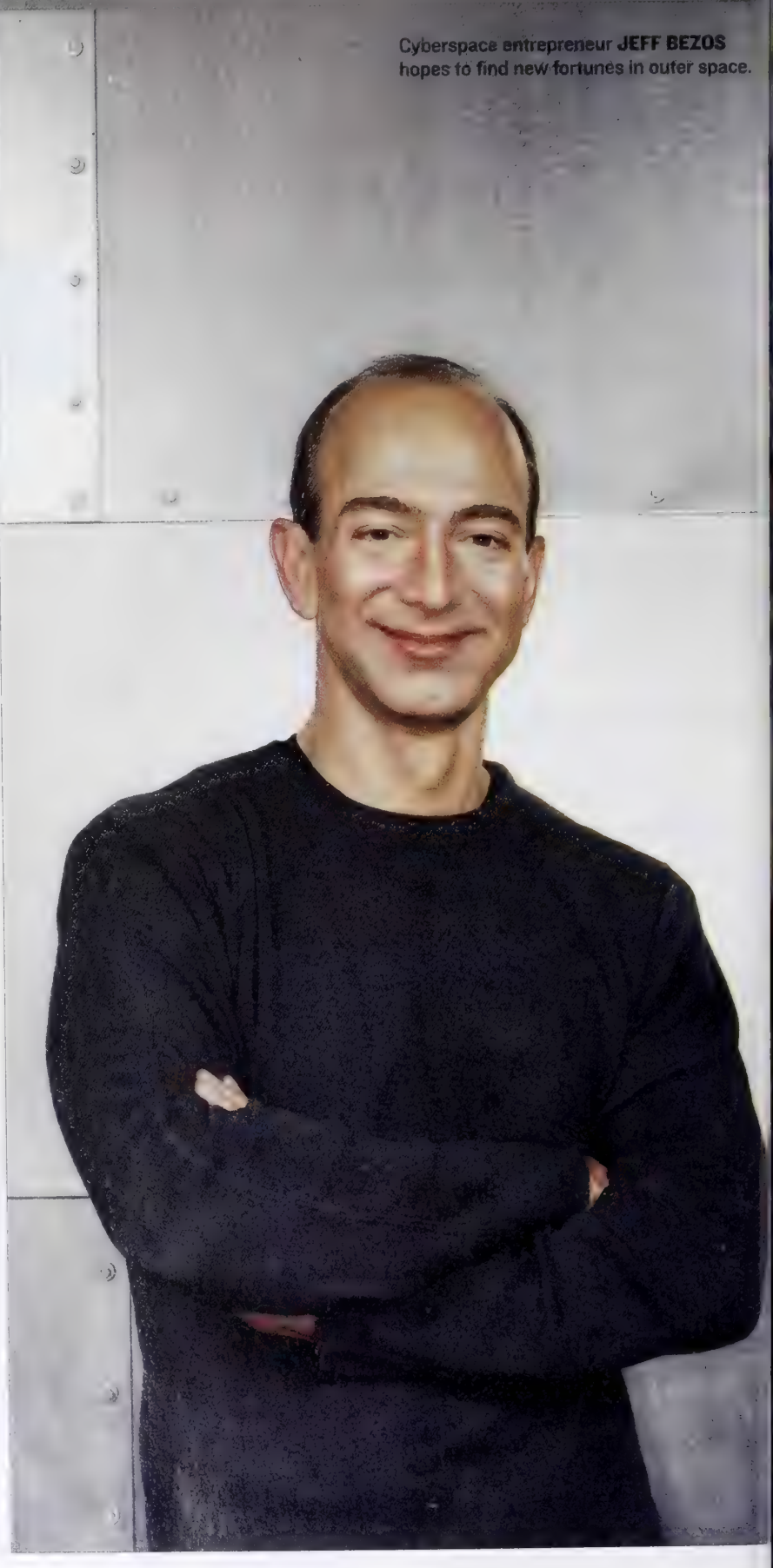
NEW **Google.** *Palo Alto.*
31. Single

Larry Page

$4 billion

NEW Google. *Palo Alto.*
31. Single

A year ago we estimated their collective worth at $1.1 billion. Whoops. Since taking their Internet search engine public in August, the dynamic duo behind Google has seen



Cyberspace entrepreneur **JEFF BEZOS** hopes to find new fortunes in outer space.

BEST BUY
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ROLLING STONES TOKY LICKS
REBEL STRIKE
MADDEN 2004
BestBuy.com

BY THE NUMBERS

45

members of The Forbes 400 made their wealth from media.

their combined fortune soar to $8 billion. At a recent $111, Google trades at 150 times trailing earnings, after starting out at $85. Both partners have math teacher parents. Brin emigrated from Russia; Page grew up in Michigan. Met at Stanford while pursuing graduate degrees in computer science. Founded Google in 1998. Internet gateway uses more than 10,000 networked computers to comb through 3 billion Web pages. Raised $25 million from starmaker venture capital firms Kleiner Perkins Caufield & Byers and Sequoia Capital. Recruited seasoned tech exec Eric Schmidt *(see)* to run company; Brin serves as president of technology, Page heads products division. Eschewed traditional Wall Street IPO in favor of Dutch auction, then riled SEC after *Playboy* published interview in the mandated "quiet period." No matter. Google founders still bigger stars than any centerfold.

David Filo

$2.6 billion

Yahoo. *Mountain View, Calif.*

38. Single

Jerry Yang

$2.2 billion

Yahoo. *Los Altos, Calif.*

35. Married, 1 child

Erstwhile Internet darlings must feel a bit nostalgic, watching all the hoopla over Google's young Turks. Thirtysomethings met as grad students at Stanford in 1989, developed Internet search portal. Became Internet billionaires taking Yahoo public in 1996. Survivor of the dot-com meltdown now profitable, but may well regret making a $10 million investment in rival Google 4 years ago, despite the spectacular 5,000% return. In February Yahoo stopped using Google technology to run searches, now feverishly developing competing engine of its own. Partners retain Chief Yahoo title, but this business now run by former Warner Bros. chief Terry Semel.

Eugene Shvidler

$1.8 billion

NEW **Oil.** *Moscow, Russia.*

40. Married, 3 children

Trained as an oil engineer in Moscow, earned M.B.A. from Fordham University. Worked for Deloitte & Touche; became U.S. citizen. Teamed up with Roman Abramovich to start Runicom S.A., Swiss oil trading firm. In 1995 the duo partnered with Boris Berezovsky to gain control of oil giant Sibneft; Shvidler became president in 1998. With partners, pooled his oil, aluminum, meatpacking and other industrial assets in British holding company Millhouse Capital. Last year played a key role in ending merger talks between Sibneft and its larger Russian rival, Yukos, after the arrest of top Yukos shareholder Mikhail Khodorkovsky (who would have run the new company).

Tom Gores

$1.7 billion

Leveraged buyouts. *Beverly Hills, Calif.*

40. Married, 3 children

Israeli immigrant spent his 20s learning the buyout business alongside older brother Alec at Gores Technology Group. They split in 1995 and Tom now runs Platinum Equity; conglomerate manages 20 companies with $6 billion in sales. Patiently rebuilds distressed companies before selling them at a profit. Raised $750 million fund in June—his first time investing other people's money. Purchased famed MCA complex in Beverly Hills, former Global Crossing headquarters; his brother Sam's Paradigm talent agency will occupy one building. Buyout king no funding a movie about a love story set in re olution-era Cuba; actor pal Andy Garcia w star and direct.

Kenneth Griffin

$825 million

Hedge funds. *Chicago.*

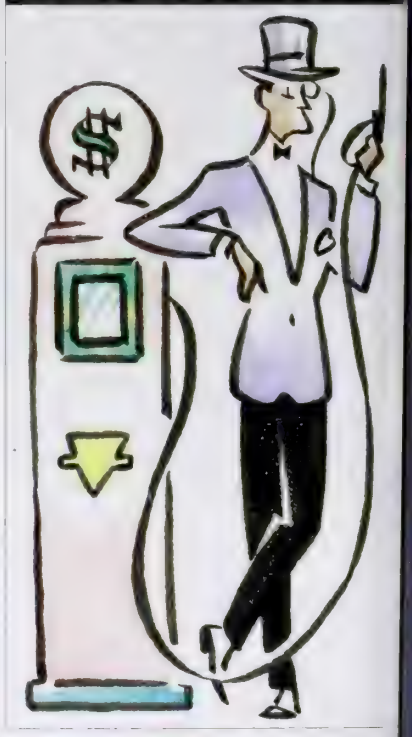
35. Married

Programming skills led to a high school co sulting job with IBM. Started 2 small inves ment portfolios from his Harvard dor room as a freshman in 1986, managing million by senior year. Today runs Citad Investment Group: $10 billion in asse Press-shy: bought the negatives for one of professional photos to keep the imag out of magazines and newspapers. Donat time, money to the Robin Hood Foundati formed by Paul Tudor Jones *(see)*; also pr vides investment advice to Chicago's Pub Education fund. Married French-born hed fund manager and Julian Robertson prot Anne Dias last year in Versailles, France.

BY THE NUMBERS

34

members of The Forbes 400 derive their wealth from oil.



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ntroducing our new arsenal in the fight against out-of-control health-care costs. This formidable foursome of innovative ealth plans is designed to bring employers and employees together as allies in managing health-care costs. Each unique lan attacks the problem from a different angle. The Power CareAdvocate PPO combines choice and freedom with cost-saving are-management features. The Power HealthFund PPO empowers members to make informed medical decisions. The Power elect HMO provides affordable access to quality care. And our HSA-compatible Health Plans give members greater control ver how they manage their health-care expenses. To choose your mode of attack, call your broker. But please, be careful.

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Lessor Fortunes

THERE'S NO PLACE LIKE HOME. ESPECIALLY IF YOU OWN THOUSANDS OF THEM. FOR NOW, REAL ESTATE REMAINS A SOLID INVESTMENT.

Donald Bren

$4.3 billion

Real estate. *Newport Beach, Calif.*

72. Twice divorced, remarried; 6 children

After Marines, built first house on $10,000 loan 1958. Started home-building company, sold to International Paper for $34 million in 1970. Became majority owner of Irvine Co., including Irvine Ranch south of Los Angeles. Now sells finished plots on the 93,000-acre tract for more than $1 million an acre. Also 400 office buildings, 35 shopping centers, 80 apartment complexes, 2 luxe hotels. Big supporter of educational, conservational causes, Arnold Schwarzenegger's political career.

Donald Trump

$2.6 billion

Real estate. *New York City.*

58. Twice divorced; 4 children

America's love affair with The Donald reaching impossibly new highs: his reality show, *The Apprentice*, was prime-time television's highest-rated series last year. His Visa commercials air around the clock. His casinos, well, his detractors can point to them and say, "You're fired." After nearly defaulting on its debt obligations, Trump's gaming properties to reorganize; Trump to relinquish controlling stake, role as chief executive (still retains chairman title). No matter. For Donald, real estate is where his real wealth lies. Over 18 million square feet of prime Manhattan space, including 40 Wall Street, Trump World Tower, Trump International Hotel & Tower. Complicated partnerships make ascertaining net worth difficult, but there's no confusing the success of West Side rail yard residential development: 80-acre parcel bought for $80 million in 1985 now fetching more than $2,000 per square foot. Avid golfer set to open new 18-hole golf course in Bedminster, N.J.

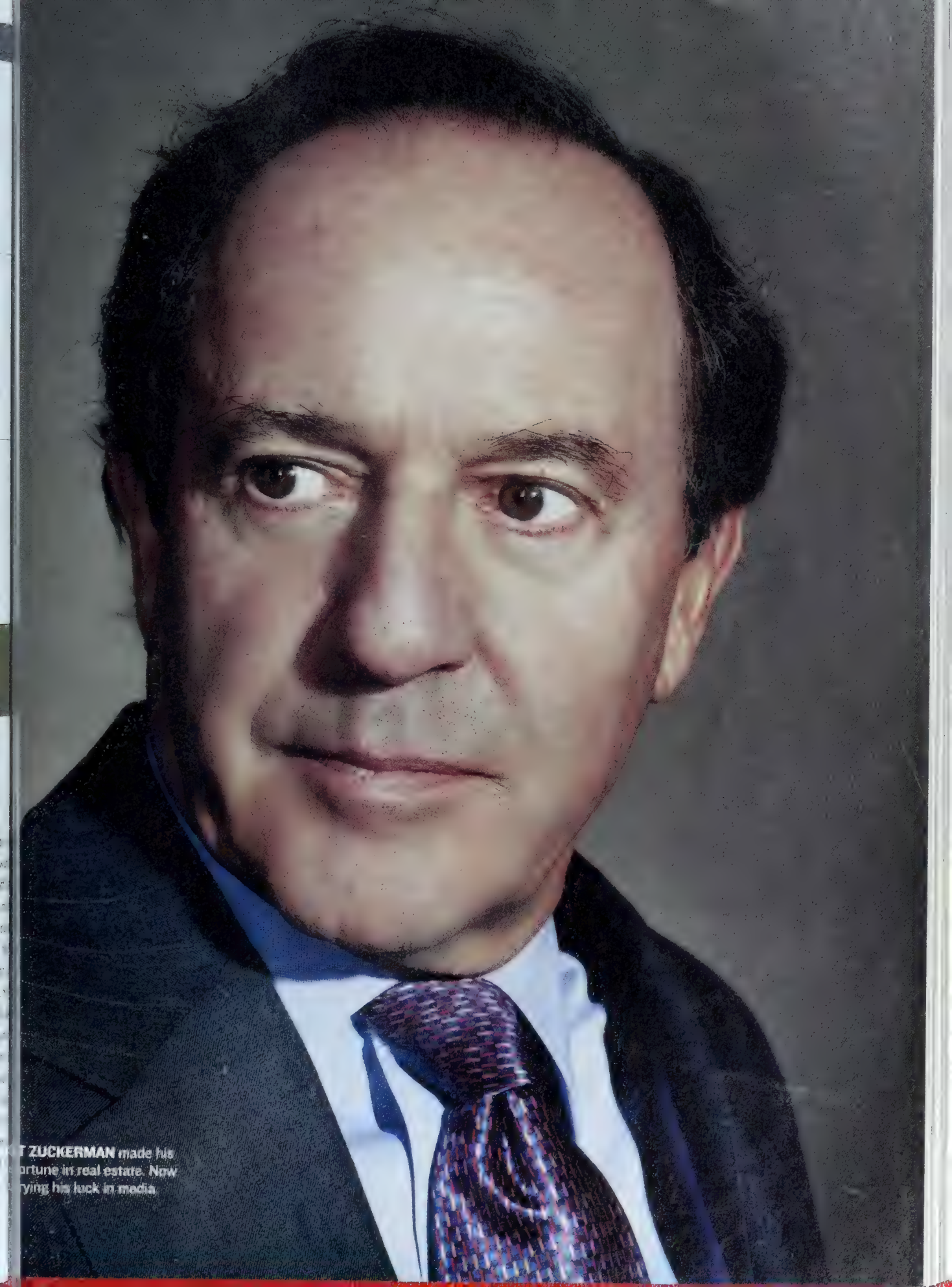
Leonard Stern

$2.5 billion

Real estate. *New York City.*

66. Divorced, remarried; 3 children

Son of German bird salesman looking to restore family's reputation after son Edward, head of Canary Capital hedge fund, set off last fall's mutual fund scandal with improper market-timing trading scheme. Ed cooperated with authorities, paid $40 million fine. Leonard got start running father's Hartz pet supply business, made industry leader. Sold 85% of company for $208 million in 2000; also sold *Village Voice* newspaper. Son Emanuel manages family's vast real estate empire: 35 million square feet of commercial space in New Jersey, New York City's posh Soho Grand and Tribeca Grand hotels. Ponied up $30 million in 1988 to get his name on alma mater New York University's business school. Cofounder of Homes for the Homeless in New York City.



T ZUCKERMAN made his
ortune in real estate. Now
ying his luck in media.

Samuel Zell

$2.4 billion

Real estate. *Chicago.*

63. Twice divorced, remarried; 3 children

Parents escaped Poland weeks before Nazi invasion. Sam born in Chicago 4 months after family's arrival in America. With fraternity brother Robert Lurie (d. 1990) bought up cheap real estate throughout the U.S. from distressed owners. Rehabbing costs proved to be a bargain when construction costs for new buildings soared. The jeans-wearing businessman owns 125 million square feet of office space and 202,000 apartments. "I've always said that I am worth $29.53."

Mort Zuckerman

$1.6 billion

Media, real estate. *New York City.*

67. Divorced, 1 child

Son of Montreal tobacco and candy wholesaler. Wharton M.B.A.; law degrees from McGill, Harvard. Never took bar exam: "Practicing law is the opposite of having sex. Even when it's good, it's bad." Got start in real estate working at Cabot, Cabot & Forbes. Left to form Boston Properties: $6.5 billion REIT owns 45 million square feet of mostly East Coast commercial space. Second career: publishing. Owns *U.S. News & World Report*; bought, turned around New York's *Daily News*. Sold *Fast Company* magazine at tech boom peak for $365 million.

Melvin Simon

$1.6 billion

Real estate. *Indianapolis.*

77. Divorced, remarried; 4 children

Kid from the Bronx sold encyclopedias in the Army, later became leasing agent. With brother Herb made fortune blanketing the U.S. with unpretentious shopping malls. Mel started own real estate investment company 1960. Dropped attempt to takeover Detroit-based Alfred Taubman's *(see)* mall empire after bitter legal feud. Brothers own pro basketball's Indiana Pacers. Wife, Bren, briefly ran for lieutenant governor; backed out, now supports incumbent Governor Joe Kernan.

Archie Aldis Emmerson

$1.5 billion

Timberland, lumber mills. *Redding, Calif.*

75. Widowed, remarried; 3 children

Largest private landowner in California still sparring with environmentalists, despite having sold thousands of acres of land to preservationists. "Red" operated small lumber mill with father in 1940s. Took Sierra Pacific public 1969; got tired of answering to Wall Street, took private 5 years later. Borrowed $460 million to buy 522,000 acres in 1988, making him among the nation's largest private landowners. Expanded into Washington state: built 13th sawmill in Aberdeen. Two sons work in the business.

John A. Sobrato

$1.5 billion

Real estate. *Atherton, Calif.*

65. Married, 3 children

Palo Alto residential broker in the 19 branched into commercial market. N one of Silicon Valley's largest commer landlords, with more than 10 million sq feet. Son, John Michael, runs the busi day to day.

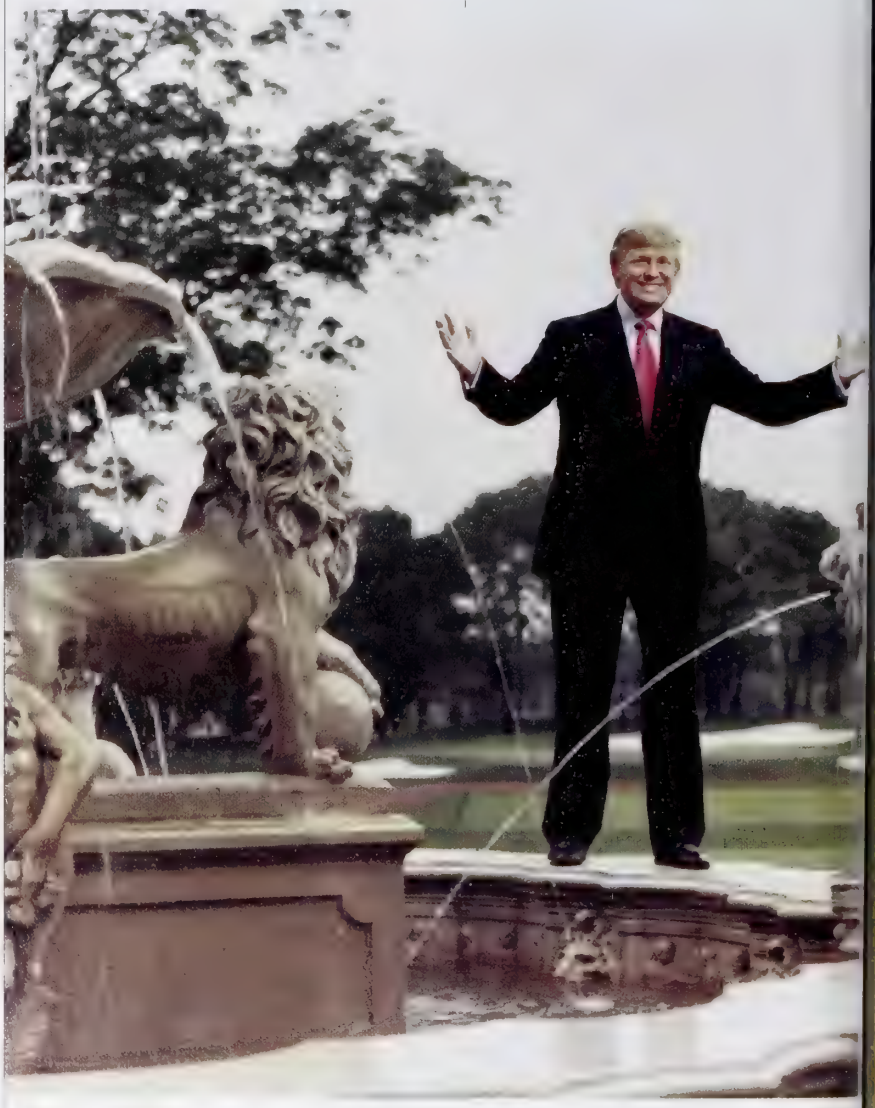
Thomas Flatley

$1.2 billion

Real estate. *Milton, Mass.*

72. Married, 5 children

Irish immigrant built billion-dollar fort



DONALD TRUMP gushes over all of his new side projects. But real estate reigns suprem

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in New England real estate. Sold $500 million apartment portfolio in 2002, but still owns 8 million square feet of commercial and retail space. Said to be considering big redevelopment project of South Boston waterfront. Major donor to Boston-area Catholic and Irish-American causes.

Edward DeBartolo Jr.

$1.2 billion
Shopping centers. *Tampa, Fla.*
57. Married, 3 children
Former owner of pro football's San Francisco 49ers severed ties to team in 1999 following heated dispute with sister Denise over family assets. Sister forced to pay him $70 million, give up large stake in Simon Property Group; stock up 30% over past year. University of Notre Dame grad tried to develop casinos, small card clubs following feud; failed, ended up being investigated by feds. Now tending to personal portfolio.

George Argyros

$1.1 billion
Investments. *Newport Beach, Calif.*
67. Married, 3 children
Detroit-born son of Greek immigrants, raised in Pasadena. Got real estate license 1962, bought and sold corner lots at busy intersections to gas stations. Moved to apartments 1968. Today Arnel & Affiliates real estate firm manages apartments, develops commercial property in southern California; also owns investment outfit Westar Capital. Ex-owner of baseball's Seattle Mariners now ambassador to Spain. Planning return home following November election to spend more time with family.

Having survived jail and a hostile takeover threat **ALFRED TAUBMAN** is now fighting the good fight.

Carl E. Berg

$1.1 billion
Real estate, venture capital.
Atherton, Calif.
67. Married, 1 child
Former loan processor, vending machine repairman invested in Silicon Valley commercial real estate with John Sobrato *(see)* in the 1960s. Struck out on own, formed Mission West Properties. Today some 8 million square feet in Silicon Valley, but lately dealing with vacancies: "We've had a terrible year." Better times tending to more than 100 technology investments, including Netlogic Microsystems, which went public in July.

Edward Roski Jr.

$1.1 billion
Real estate. *Los Angeles.*
65. Married, 3 children
Vietnam vet's Majestic Realty the largest commercial builder in Los Angeles with 55 million square feet of space. In Las Vegas developing 400-acre business park off Sin City's new beltway with Thomas & Mack; company controls 3 million square feet in the gambling mecca. Built Staples Center with Philip Anschutz *(see)*; duo made failed attempt to bring pro football back to Los Angeles. USC grad loves sports: minority owner of pro basketball's L.A. Lakers, hockey's L.A. Kings. Other vice: antique sports cars.

Neil Bluhm

$1 billion
Real estate. *Chicago.*
66. Divorced; 3 children
With partner Judd Malkin, ran powerhouse JMB Realty during 1980s, eventually managed $26 billion in office buildings, shopping malls, apartments, hotels. Market pummeled 1990s; stuck it out, now enjoying rising values. Developing Niagara Falls casino with Pritzker family *(see)*. Controls Four Seasons hotels in Chicago, Scottsdale, Ariz. Longtime Democrat held rally for U.S. Senate hopeful Barack Obama at home in July.

BY THE NUMBERS

At least 266 members of The Forbes 400 received a college degree. Their average net worth:
$2.4 Billion

John Arrillaga

$1 billion
Real estate. *Palo Alto, Calif.*
67. Widowed, remarried; 2 children

Richard Peery

$1 billion
Real estate. *Palo Alto, Calif.*
64. Married; 4 children
Partners became 2 of Silicon Valley's biggest commercial landlords converting farmland bought in the 1960s into pricey office space. Lifelong partners shun debt, the media. Arrillaga a big donor to alma mater Stanford University.

B. Francis Saul II

$900 million
Inheritance, banking, real estate.
Chevy Chase, Md.
72. Married, 5 children
University of Virginia law grad founded rea

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estate investment trust B.F. Saul in 1964. Using lots of leverage, invested in regional shopping centers, office properties, mid-market hotels. Founded Chevy Chase Bank 1969 out of a trailer near one of his shopping centers. Took second REIT public under the name Saul Centers in 1993. Trustee of Johns Hopkins School of Medicine and Brookings Institution.

Guilford Glazer

$900 million

Shopping malls. *Beverly Hills.*

83. Divorced, remarried; 2 children

World War II veteran worked in father's welding shop Knoxville, Tenn. Attended George Washington University and University of Louisville before joining Navy. Rejoined family business, expanded; launched real estate career with apartment building for widowed mother. Made fortune building shopping centers 1950s-60s. Moved to Los Angeles for climate, opportunities; opened 2.5-million-square-foot Del Amo Fashion Center 1971; sold to Mills Corp. last year for $442 million.

Alfred Taubman

$900 million

Real estate. *Bloomfield Hills, Mich.*

80. Divorced, remarried; 3 children

Shopping mall magnate crying bum rap a year after finishing nine months in prison for price-fixing as chairman of Sotheby's. Blames colleagues for passing buck, now wishes he had testified. Survived hostile takeover bid for Taubman Centers chain, in part thanks to intervention from friendly Michigan state legislature. Mall chain now run by son, Robert, but Dad stays busy with philanthropy. Latest donation: $4 million to Lawrence Technological University.

Marvin Oates

$825 million

Real estate. *Sacramento, Calif.*

81. Divorced; 5 children

World War II bombardier returned after war with $2,000 savings, opened locksmith shop. Expanded into retail chain A&A Key and Builders Supply. Started developing real estate in 1960s; now manages over 20 million square feet. "Buzz" slated to donate $2.5 million and property in Placer County, Calif. to build group home for pregnant women.

WALTER SHORENSTEIN spent a lifetime cornering the real estate market in San Francis

Walter Shorenstein

$750 million

Real estate. *San Francisco*

89. Widowed, 2 children

After Air Force, hired as real estate salesman for Milton Meyer & Co. in 1946. Named ner 1951; bought company outright in Built up. Put up only $2 million in equi buy $660 million Bank of America h quarters in 1985. Managed and owned of some 20 million square feet of trophy estate across the U.S. (including roughly of downtown San Francisco office space fore selling off some San Francisco prop earlier this year. Son, Douglas, runs fa company; daughter, Carole, award-win theatrical producer. Walter a promi Democratic supporter.

Voice Over IP Goes Mainstream

ISINESSES RECEIVE OPTIMIZED FEATURES AND SAVINGS WITH VOIP

ar Channel Communications Discovers e Power of VoIP Solutions

ou don't need a Ph.D. in telecommunications these days to reciate the business case for Voice over Internet Protocol IP) technology. However, four years ago, when a small fornia IP telephony services company called GoBeam ose voice service was recently acquired by Covad) first began keting its hosted, IP-based business voice service with PBX tionality, the concept was new enough that finding a wledgeable buyer was a big plus.

oss DuClair, chief engineer for four radio stations in amento owned by Clear Channel Communications and er of a doctorate in telecommunications, was immediately ressed by the upstart company's full-feature hosted PBX tion, which offers advanced PBX capabilities without need to install expensive PBX hardware at the customer ion. The IP-based merger of computer and telecommuni- ns technology made special features possible through a -friendly Web-based call management interface called the nboard. These included:

- e ability for users to consolidate their multiple phone mbers with a single personal telephone number so callers ch them wherever they are;
- personal virtual fax number to handle all incoming faxes;
- unified visual mailbox to manage voice mail and faxes just e e-mail;
- ll logs and integration with Microsoft Outlook that allow rs to make and return calls with just a mouse click;
- sy-to-set-up Web collaboration and voice conferencing.

the end, though, it was not the gee-whiz technical features sold him on a VoIP solution — it was pure economics. y came in and plotted out the savings for me after a short w of our infrastructure," DuClair says. "That made excel- ense in terms of budget and for ROI. It makes it pretty easy to top management and say, 'We really ought to do this.'"

Covad Makes Moving a Snap for American West Worldwide Express

American West Worldwide Express is in the transportation and logistics business. However, one thing the specialist mover of high-value manufactured furniture to retailers and provider of general commodity and air freight services *doesn't* do is lug around a lot of its own telephone equipment. When the company's main office moved to Los Angeles from a nearby suburb, the company simply unplugged its server on one end and plugged it in at the new location. Because American West uses Covad's (formerly GoBeam's) "virtual PBX" hosted solution, the phones and faxes worked instantly and the numbers and individual features set up by users were unchanged.

"There are a lot of things that can go wrong when you change locations," says Curt Scott, American West's vice president of information technology. "Normally, you have to spend a lot of time on the technical side making sure that the old phone and faxes are going to be forwarded, and you have to time everything just right. With the Covad solution, you don't have to worry about any of that. We started moving on Friday, and on Saturday, the whole system was set up and working at the new office."

With its acquisition of GoBeam, Covad has become a major player in what is sometimes called the "IP Centrex" market, which offers smaller companies all the features of a PBX at a fraction of the cost of buying and maintaining a PBX in-house. By developing a comprehensive suite of business VoIP solutions, Covad offers small and medium-size businesses like American West the telecommunications functionality of big companies at competitive prices.

"Our business lives or dies by the telephone," Scott says. "I was a little skeptical about VoIP at first, but Covad gave us a great demonstration that showed that the business-level reliability and quality were there. Plus, we got all these great advanced features that we couldn't get, or afford, on our own. What's not to like?"

COVAD

For more information, go to
www.CovadVoice.com

Near Misses

Sheldon Solow

$740 million

9 West 57th. *New York City.*

76. Married, 2 children

Small-time builder risked everything on one Manhattan high-rise in 1972. "We're in barracuda land. You can only get away with this once." Once is enough when it's 9 West 57th Street, still one of Manhattan's premier office buildings. Now setting sights on Con Ed property on East River, largest remaining undeveloped plot of land in Manhattan.

Summerfield Johnston Jr.

$740 million

Coca-Cola. *Chattanooga, Tenn.*

72. Married, 5 children

Grandfather James and partner won first Coca-Cola bottling franchise 1899. Summerfield took over in the 1950s, became largest independent Coke bottler; merged with Coca-Cola Enterprises 1991. Stepped down as CEO in 2001; still chairs executive committee.

Joshua Green III

$740 million

Inheritance, banking. *Seattle.*

68. Divorced, remarried; 3 children

Harvard English major, scion of 3rd-generation Seattle banking fortune merged family's People's Bancorp with U.S. Bancorp in 1987. Avid fly fisherman, oversees family fortune through Joshua Green Corp.; donates to King County causes.

After a tumultuous year MICHAEL EISNE said he will step down as Disney's top mouse.

Sarah T. Butler

$740 million

Coca-Cola. *Columbus, Ga.*

84. Widowed, 3 children

William Turner

$740 million

Coca-Cola. *Columbus, Ga.*

81. Married, 6 children

Elizabeth T. Corn

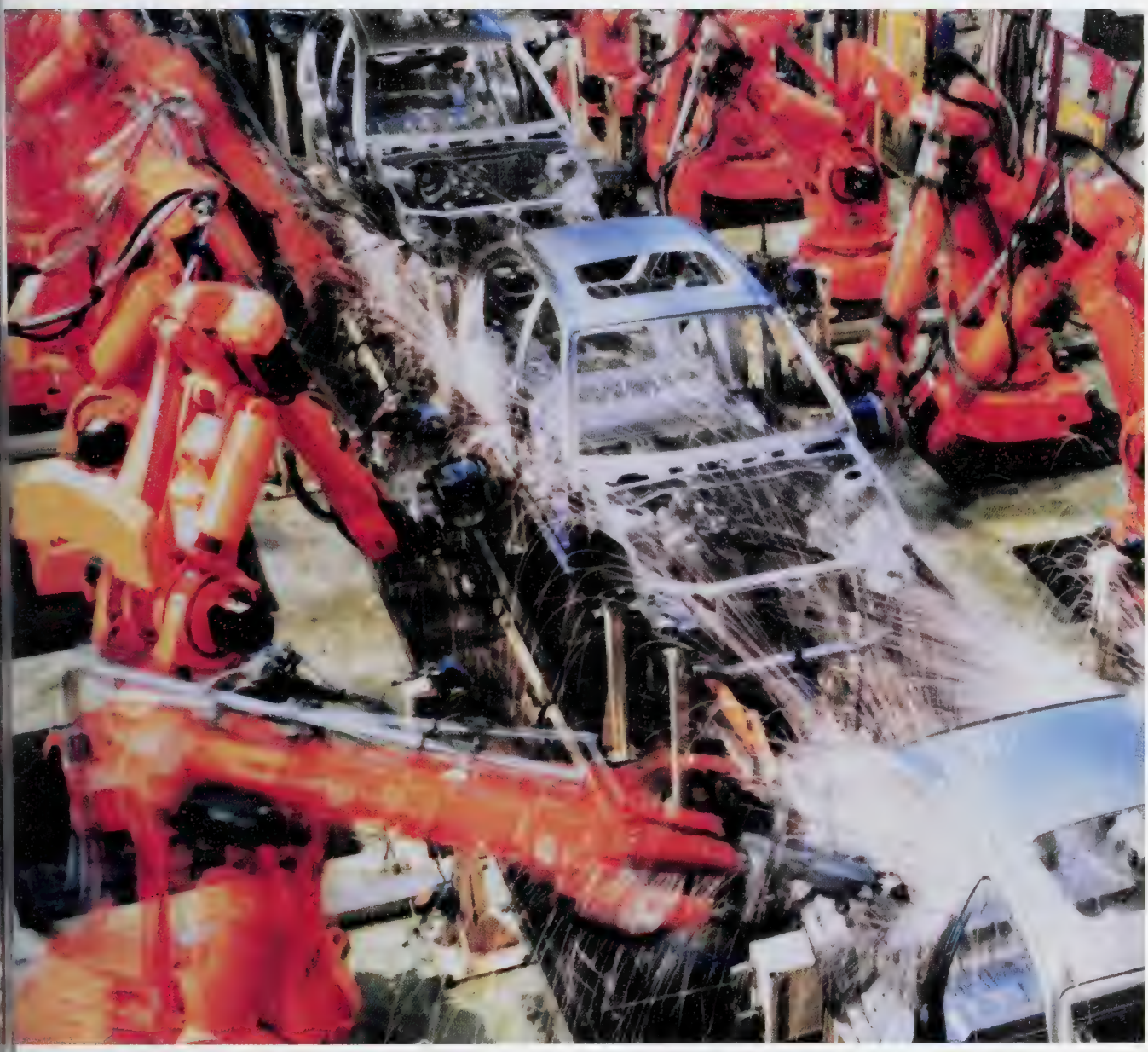
$740 million

Coca-Cola. *Columbus, Ga.*

78. Married, 5 children

Grandchildren of W.C. Bradley, who found eponymous company in 1885. In 1919 pa nered with Ernest Woodruff to build so drink empire. Sold to Coca-Cola for sto Siblings inherited large Coke stake, but 4 generation now in charge. Sarah's son Stev runs W.C. Bradley Co.: real estate, Char-Br grills, Zebco fishing gear. William's son Jo

Downtime is not an option.



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serves as director at company, active role in Columbus riverfront restoration project.

Robert E. Petersen

$725 million

Publishing. *Beverly Hills, Calif.*

78. Married

Mechanic's son pumped gas as a child. Used $400 to start *Hot Rod* magazine in 1948. Added *Guns & Ammo*, *Motor Trend*, *Skin Diver*. Sold Petersen Publishing in 1996 for $500 million. Invests in real estate, biotechs, fast food; Petersen Aviation in Van Nuys, Calif. charters G IVs and Hawker 1000s. With wife, Margie, started Petersen Automotive Museum in Los Angeles 1994. Last year bestowed the Robert E. Petersen Lifetime Achievement Award for evolution in hot rod industry to George Barris, maker of the Batmobile.

Kenneth Feld

$725 million

Circus, live entertainment. *Potomac, Md.*

54. Married, 3 children

Ringmaster of Feld Entertainment unlucky in Las Vegas: company's Siegfried & Roy magic show closed indefinitely after Roy Horn mauled by his tiger Montecore during performance last October at the Mirage. Rock 'n' roll promoter father, Irvin (d. 1984), bought Ringling Bros. in 1967; sold to Mattel in 1971 for $50 million. Bought back for $23 million 1982. Circus-raised Kenneth now runs show, spends much of his time fighting lawsuits from animal rights activists. Produces 3 traveling-circus units, 8 *Disney On Ice* touring shows, including new *Finding Nemo* extravaganza and *Disney Live!*

Theodore Forstmann

$725 million

Leveraged buyouts. *New York City.*

64. Single

Former Master of the Universe received semisweet verdict from Connecticut jury in July: charged with bad faith in investing state's money in failed XO Communications and McLeodUSA. Yale grad won't pay damages; jury said state complained only after deals went sour. Long-term

Leveraged buyout mogul THEODORE FORSTMANN will have to wait until next year for a spot on The Forbes 400.

record still impressive: estimated $7.5 billion investment gains in last 25 years. Started Forstmann Little buyout firm 1978. Early success with Gulfstream Aerospace, Ziff-Davis, General Instrument. Activist for education reform, Republican fundraiser, notorious bachelor; once linked to the late Princess Diana, actress Elizabeth Hurley.

Ira Rennert

$720 million

Steel, junk bonds. *New York City.*

70. Married, 3 children

Former credit analyst made fortune issuing junk bonds secured by metals companies he acquired; stopped interest payments, sent companies into bankruptcy, bought company assets back for pennies on the dollar. Bought military contractor AM General for $133 million in 1992; maker of U.S. Army's all-terrain Humvee vehicles created luxury-SUV market with 2.5-ton Hummer. Sold majority stake to Ron Perelman's *(see)* MacAndrews & Forbes holding company for $400 million in August. Constructio still underway on his palatial compoun in the Hamptons: 100,000 square fee 29 bedrooms, 2 bowling alleys, 3 bathrooms.

William S. Boyd

$700 million

Casinos. *Las Vegas.*

72. Divorced, 3 children

Casino kingpin started gaming industry cor solidation frenzy in February when his Boy Gaming merged with Coast Casinos for $1. billion. Stock up 63% since deal was an nounced. Father Sam (d. 1993) came to Vega in 1941 with $80, got start running penn roulette wheel; made point of saving half c what he made. Invested $16,000 in Sahar hotel 1952; became general manager at Min hotel. One of first to hire black and femal dealers, admit black customers. Son Bill co founded Boyd Gaming 1974 with dad, steere clear of mob. Appointed supervisor of Star dust casino by State of Nevada after skimmin scandal 1984. Took company public 1993 today operates casinos in Nevada, Mississipp Illinois, Indiana, New Jersey and Louisiana.

Michael Eisner

$690 million

Walt Disney. *Los Angeles.*

62. Married, 3 children

Twentieth year running Magic Kingdon fraught with more fury than a fairy tale fended off hostile takeover bid by Comcast relinquished chairman position after share holder revolt led by founder's nephew Ro Disney *(see)*; likely to lose lucrative distribu tion partnership with Pixar *(Toy Story, Findin Nemo)*. Came under fire for refusing to dis tribute Michael Moore's incendiary but high grossing documentary *Fahrenheit 9/11* whil studio's own releases *(Alamo, Around th World in Eighty Days)* fell flat. Apparently al too much: now says he'll step down as CEO when his contract expires at end of Septembe 2006. Former Paramount executive took ove troubled Disney in 1984, masterminded mag nificent turnaround. Increased shareholde value more than tenfold, but stock a laggar since late 1990s.

Outlook: San Francisco
Business Profiles

an Francisco has long been recognized as America's great center of free-thinking idealism and frontier adaptability. And the city's rich history is evident in a diverse array of neighborhoods and charming architecture.

But while San Francisco's people are dedicated to preserving their architectural, historical and cultural treasures, they are certainly not stuck in the past. In fact, one recent study indicates that San Francisco is the city most able to take advantage of opportunities in the new economy, based on its educated workforce and innovative spirit, and the availability of venture funding. Tourism, foreign trade and finance are the mainstay's of the economy, with food-processing and clothing manufacture playing important roles as well. The Bay Area also remains strong in core industries such as agriculture, mining and transportation.

On the next few pages, you will learn about some of the current and future business leaders who are helping San Francisco capitalize on its many assets.

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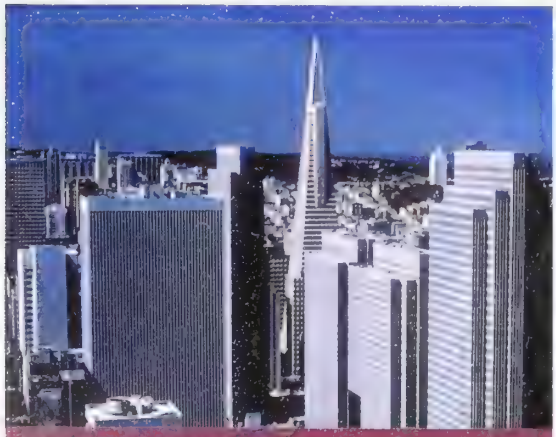
Special Advertising Section

Complex Litigation Management Is Stock-in-Trade for Hancock Business Litigation Group

When Yahoo! in-house litigator Reggie Davis learned he faced a new software licensing contract dispute, he immediately turned to a legal team he had been working with personally for over a decade. Calling on Hancock Rothert & Bunshoft LLP's Business Litigation Practice, Davis was making an unmistakable statement about his company's commitment to winning. "When a business engages us, it sends a clear message of how seriously it is taking the situation. Our extraordinary record of success in bet-the-company cases gives clients the advantage they need when everything is on the line," says Practice Co-chair Rick Seabolt.

Led by Seabolt and Pat Cathcart, Hancock's Business Litigation Practice earned its reputation as a true pioneer of litigation management in California by skillfully handling massive, complicated lawsuits. This experience allows us to meet the diverse needs of our clients. Taking on these significant cases, Hancock develops effective strategies for representing plaintiffs as well as defendants in unusually difficult work. In one such trial, Hancock had the lead role in the defense of a rocket manufacturer's claim in the nation's largest trial resulting in a defense jury verdict in 1991. The stakes were high, with possible damages of $500 million to $1 billion. It included so many law firms and exhibits that it had to be held in a converted gymnasium and required twice as many jurors as normal to accommodate the alternate jurors required by the trial judge. Hancock not only won, but defended the verdict on appeal.



With its largest office in San Francisco, Hancock has been a pioneer of litigation management in California by skillfully handling massive, complicated lawsuits.

Today, the Business Litigation Practice applies these hard-won management techniques and continually devises new innovations to meet the needs of clients in the wide variety of industries that drive California's economy. In one of its most high-profile cases, Hancock is representing the family holding the U.S. merchandising rights to Winnie the Pooh in its suit against Disney. "In addition to our leadership in insurance and environmental law, we are defending or prosecuting in some of the region's most important lawsuits and appeals dealing with contract and commercial disputes, entertainment industry disputes, unfair business practices, class actions and trade secrets," says Cathcart.

In 2005, Rick Seabolt and Pat Cathcart will both rise to prestigious positions. Seabolt is on track to serve as the Chair of the Litigation Section of the State Bar of California. Cathcart is on track to serve as President of the Association of Business Trial Lawyers, Los Angeles.

Known for their litigation skills, Seabolt and Cathcart have become two of the state's most influential attorneys. Both are 25-year industry veterans with national and international experience. They are individually ranked in *Chambers USA* and *America's Leading Business Lawyers 2003-2004*. Mr. Seabolt was selected as a Northern California Super Lawyer in 2004 and Mr. Cathcart was selected as a Southern California Super Lawyer in 2004. Seabolt is a sought after speaker and an editorial consultant/author of the new four-volume set *LexisNexis Matthew Bender California Practice Guides: California Pretrial Civil Procedure and California Civil Discovery.* Recently, the Chief Justice of California selected Seabolt to serve on the California Judicial Council's Civil Jury Instruction Advisory Committee that is redrafting the jury instructions given California juries about the law.

Founder of Hancock's Los Angeles office, Mr. Cathcart has managed over 900 claims and lawsuits involving professional liability for 24 large California law firms.

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Homebuilder Creates Lasting Communities

Shea Homes

Shea Homes creates a legacy with ch community it develops. The home- ilder is involved with every step of the velopment process, from geological d environmental studies to solid con- uction. The goal is to offer quality mes while creating a comfortable vironment and an inviting community which to live.

Shea Homes Northern California vision President Layne Marceau says, e care about quality, safety, and how e home lives over time. We're not lding a Porsche, or a Honda. We're lding the Volvo of homes. It may not ways be the sexiest design, but it is ways dependable, reliable and a good ue." The company has earned a rep- tion for going beyond what other lders do to bring more value to their mes. Shea Homes typically invests in igher grade of roofing, wiring, insula- n and structural materials, even ugh the customer may not see it.

With a century of experience hind it, Shea Homes has a long history he West. J.F. Shea, the founder, rted a plumbing installation business he 1880s in Oregon and expanded o tunneling and bridgework. By the 30s, J.F. Shea was known throughout Western U.S. for its outstanding gineering work on the piers of the lden Gate Bridge and on the Hoover m project. The company later did tun- ing work for the San Francisco BART stem. In the 1960s, the Shea Family companies diversified its heavy con- uction business into several areas, luding homebuilding with Shea mes.

In the 1980s, Shea Homes expand- from homebuilding into development master-planned communities. rceau says, "We have to respect the vironment and community, therefore plan the amenities and recreational ects of the neighborhoods as well as homes."

Shea Homes develops master-planned communities to create safe environments and comfortable communities in which to live.

Today, Shea Homes is one of the most well respected homebuilders in the nation, with operations in Arizona, California, Colorado, Washington and North Carolina. "Getting referrals and repeat customers is very important to us," says Marceau. "That's why we have an independent group survey each new homeowner after move-in at 30 days and 11 months. We listen to the customer's feedback, which helps us to improve our process."

Keeping customer service and customer feedback high priorities is proving to be a good direction for the company. In 2004, J.D. Power rated Shea Homes the fourth best builder for customer service in all of Northern California. To further enhance the home-buying experience, Shea Homes provides a range of services from financing to interior design; making it easy for customers to make a Shea Home their own.

SheaHomes

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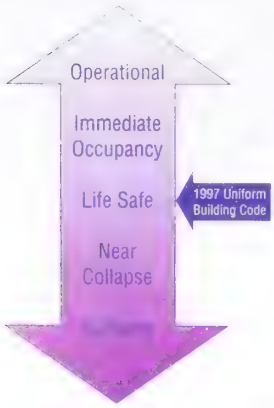
Degenkolb Engineers: Your First Defense Against Earthquake Damage

According to the Federal Emergency Management Agency (FEMA), the United States suffers some $4.4 billion in earthquake losses annually. California, Oregon and Washington account for a staggering 84 percent of these losses, with $3.3 billion of damage occurring in California alone.

As disturbing as these figures are, they tell only half the story. Losses incurred in an earthquake only begin with the physical damage on FEMA's tally; the weeks or months that a business may have to suspend operation due to earthquake damage can be devastating to a company's bottom line. But, in spite of the threat from seismic disturbances, many businesses do not know how vulnerable their structures really are.

Founded in 1940, Degenkolb Engineers provides structural engineering services to architects, *Fortune* 500 companies and other corporations, healthcare institutions, universities, school districts, historic building owners, and government entities. The firm specializes in seismic hazard assessment, the process of determining a structure's likelihood of damage during an earthquake.

Building Performance Levels in The Event of an Earthquake



"It is important to deal properly with the seismic vulnerability of your facility," says Chris Poland, President and CEO. "Remember that the building codes that govern your structure set minimum standards to ensure safety, not to protect your investment from damage. Seismic hazard assessment will help you get your risk down to a level acceptable for your business."

One of the most important areas Degenkolb Engineers works with is healthcare, where unknown seismic vulnerabilities don't just mean monetary and business losses, they can mean compromised effectiveness and decreased patient safety. The state of California realized this after the 1994 Northridge earthquake, and, through Senate Bill 1953, has mandated that all hospitals in the state address earthquake vulnerability. Degenkolb Engineers has been a partner to more than 100 hospitals as they address SB 1953 compliance and has performed evaluations on more than 30 million square feet of healthcare facilities. With offices from Seattle to San Diego, the firm has more than 15 project managers and 60 engineers recognized as leaders in healthcare design and rehabilitation.

Healthcare facilities are just one of Degenkolb Engineers' focus areas. The firm also helps a variety of companies catalog their buildings and make decisions about safety and functionality in

Chris Poland, President and CEO

advance of plans to renovate or replac structures. "Strengthening buildings ar engaging in seismic rehabilitation shou be part of a company's regular capital flow," says Poland. Degenkolb Enginee also works regularly with architectural firms to plan new construction and ren vations on college campuses and at school districts.

"Understanding your structures' seismic vulnerability is the first step to preventing costly damage and protect your human and capital investments," says Poland. With offices in San Francisco, Los Angeles, Portland, Oakland, San Diego and Seattle, Degenkolb Engineers can help you understand and prepare.

Degenkolb

Contact Degenkolb Engineers at 415-354-6555 or www.degenkolb.com.

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Responsive, Personal Service

Borel Private Bank & Trust Company

Borel Private Bank & Trust Company s built its reputation by providing out- anding service to its customers. "Borel a community-style private bank. That eans that you will find us approachable, sy to work with, and genuinely interest- in meeting your financial needs," says esident and CEO John Conover. A al bank with the backbone of a large rporation, it has the flexibility to cus- nize products and services on the ot." Conover continues, "We have the ength of the holding company, Boston vate Financial Holdings, Inc. (NAS- Q: BPFH), behind us but are able to nage all of our operations locally."

Conover came to Borel in 2003 er a 30-year career in banking. "Borel vate Bank represents what I feel most ssionately about in my work – people, rvice, excellence and community olvement," he says. The bank and its ployees donate time and money to re than 80 non-profit groups. Their unteer activities include teaching chil- n financial life skills through Junior hievement and supporting the Shelter twork's efforts to provide housing to meless families.

Tremendous growth at Borel indi- es there are more and more stomers looking for this type of ponsive, personal banking service. eposits have more than doubled in t four years, and our loan portfolio s doubled in only two years," notes ecutive Vice President and Marketing ector Barbara Evers.

Borel delivers on its promise of per- nalized, high-level service. Wanda aro, Senior Vice President and nager of Borel's new San Francisco ice says, "Our quick turnaround time l ability to customize products and vices, especially loan requests, kes us tough to beat."

"Customers appreciate being able speak to someone who knows them l can make a decision on their alf," says Evers. "Borel customers w their private bankers. And private kers at Borel sure know their cus- ers." The core executive team has

Borel President and CEO John Conover, a resident in the Bay Area for the past 15 years says, "Our private banking customers truly appreciate our flexibility with products and services but they really like knowing the person who makes those decisions for them locally."

been with Borel from the beginning, and there is little employee turnover. In April 2004, the *San Francisco Business Times* recognized Borel Private Bank as one of the "50 Best Places to Work" in the Bay Area.

Borel Private Bank & Trust Company has built its reputation for personal, responsive service over the past 25 years in San Mateo. But the history of the bank traces back to San Francisco in 1861 when Antoine Borel, the bank's namesake, became known as an exceptional merchant banker and businessman. Borel Private Bank & Trust Company is proud to have the Borel name back in San Francisco where it began nearly 150 years ago. Borel has offices in San Mateo, Palo Alto and San Francisco, with additional offices planned in other parts of the Bay Area over the next four years.

Borel Private Bank & Trust Company

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Name	Page	Rank
A		
Abele, John E Boston Scientific. ($4.5 BILLION)	176	36
Abraham, S Daniel Slim-Fast. ($1.8 BILLION)	236	124
Adelson, Sheldon casinos, hotels. ($3 BILLION)	214	60
Allen, Herbert Anthony Jr investment banking. ($2 BILLION)	196	106
Allen, Paul Gardner Microsoft, investments. ($20 BILLION)	110	3
Anderson, John Edward investments. ($1 BILLION)	238	278
Annenberg, Leonore inheritance. ($2 BILLION)	129	106
Anschutz, Philip F investments. ($5.2 BILLION)	242	33
Ansin, Edmund Newton Sunbeam Broadcasting. ($1 BILLION)	134	278
Anthony, Barbara Cox Cox Enterprises. ($11.3 BILLION)	126	13
Argyros, George Leon investments. ($1.1 BILLION)	262	260
Arison, Micky Carnival Cruises. ($5.3 BILLION)	185	32
Arnall, Roland ★ mortgage banking. ($2 BILLION)	196	106
Arrillaga, John real estate. ($1 BILLION)	262	278
B		
Bacon, Louis Moore ★ hedge funds. ($750 MILLION)	160	389
Bailey, Thomas mutual funds. ($1 BILLION)	150	278
Ballmer, Steven Anthony Microsoft. ($12.6 BILLION)	116	11
Bass, Edward Perry oil, investments. ($1 BILLION)	246	278
Bass, Lee Marshall oil, investments. ($1.7 BILLION)	246	142
Bass, Perry Richardson oil, investments. ($900 MILLION)	246	340
Bass, Robert Muse oil, investments. ($2.9 BILLION)	244	65
Bass, Sid Richardson oil, investments. ($1.3 BILLION)	246	215
Batten, Frank Sr Landmark Communications. ($1.3 BILLION)	133	215
Bechtel, Riley P engineering, construction. ($2.4 BILLION)	216	87
Bechtel, Stephen Davison Jr engineering, construction. ($2.4 BILLION)	216	87
Bechtolsheim, Andreas ★ Google. ($1 BILLION)	122	278
Beck, Nancy Lerner inheritance. ($1.2 BILLION)	188	234
Berg, Carl Edwin real estate, venture capital. ($1.1 BILLION)	262	260
Bezos, Jeffrey P Amazon. ($4.3 BILLION)	254	38
Bing, Stephen L & family ★ inheritance. ($750 MILLION)	138	389
Bisciotti, Stephen J outsourcing, football. ($850 MILLION)	190	352
Blank, Arthur M Home Depot. ($1.2 BILLION)	172	234
[illegible] ★ oil, coal, real estate. ($2.4 BILLION)	194	87
Bloomberg, Michael Rubens Bloomberg L.P. ($5 BILLION)	128	34
Bluhm, Neil Gary real estate. ($1 BILLION)	262	278
Booth, Franklin Otis Jr Berkshire Hathaway. ($1.7 BILLION)	198	142
Bose, Amar Gopal Bose. ($1 BILLION)	210	278
Bowes, William venture capital. ($860 MILLION)	157	350
Boyle, Timothy Columbia Sportswear. ($860 MILLION)	232	350
Bren, Donald L real estate. ($4.3 BILLION)	258	38
Brin, Sergey ★ Google. ($4 BILLION)	254	43
Broad, Eli investments. ($6 BILLION)	192	28
Bronfman, Edgar M Sr liquor. ($2.5 BILLION)	234	79
Brown, John W Stryker. ($960 MILLION)	180	324
Buck, Peter ★ Subway. ($1.5 BILLION)	238	165
Buffett, Warren Edward Berkshire Hathaway. ($41 BILLION)	106	2
Burkle, Ronald supermarkets, investments. ($2.3 BILLION)	144	92
Butt, Charles C supermarkets. ($2.2 BILLION)	234	97
C		
Calamos, John P ★ mutual funds. ($1 BILLION)	154	278
Cargill, James R inheritance. ($1.5 BILLION)	220	165
Cargill, Margaret Anne inheritance. ($1.5 BILLION)	220	165
Case, Stephen M AOL. ($825 MILLION)	136	363
Chambers, Anne Cox Cox Enterprises. ($11.3 BILLION)	126	13
Chaplin, Harvey ★ liquor, wine distribution. ($1 BILLION)	240	278
Cohen, Steven A hedge funds. ($2 BILLION)	144	106
Comer, Gary Campbell Lands' End. ($1 BILLION)	232	278
Connell, Grover equipment leasing. ($850 MILLION)	227	352
Conner, William E II exports. ($1.2 BILLION)	224	234
Cook, Scott D Intuit. ($1.1 BILLION)	122	260
Cook, William Alfred medical devices. ($3.2 BILLION)	176	55
Cooke, Phoebe Hearst Hearst Corp. ($1.8 BILLION)	130	124
Copley, David C ★ Copley Press. ($1.2 BILLION)	133	234
Crown, Lester & family investments. ($3.6 BILLION)	194	53
Cuban, Mark Broadcast.com. ($1.3 BILLION)	186	215
D		
Davidson, William Morse glass. ($2.8 BILLION)	185	68
Davis, Marvin H investments. ($5.8 BILLION)	242	3
Day, Robert Addison money management. ($1 BILLION)	154	27
DeBartolo, Edward John Jr shopping centers. ($1.2 BILLION)	262	2
Dell, Michael Dell. ($14.2 BILLION)	113	
DeLuca, Fred ★ Subway. ($1.5 BILLION)	238	1
DeVos, Richard M Alticor. ($3 BILLION)	214	6
Diller, Barry InterActiveCorp. ($1.3 BILLION)	133	2
Disney, Roy Edward Walt Disney. ($1 BILLION)	134	2
Dolan, Charles Francis Cablevision Systems. ($1.3 BILLION)	133	2
Dorrance, Bennett inheritance. ($1.5 BILLION)	238	1
Druckenmiller, Stanley hedge funds. ($1.7 BILLION)	146	1
Duffield, David A PeopleSoft. ($1.1 BILLION)	122	2
Duncan, Dan L ★ natural gas. ($4.2 BILLION)	242	
E		
Earhart, Anne Catherine Getty inheritance. ($775 MILLION)	250	3
Edson, John Orin leisure craft. ($1 BILLION)	210	2
Egan, Richard J EMC Corp. ($1.1 BILLION)	122	2
Ellison, Lawrence Joseph Oracle. ($13.7 BILLION)	114	
Emmerson, Archie Aldis timberland, lumber mills. ($1.5 BILLION)	260	1
Ergen, Charles EchoStar. ($7.3 BILLION)	126	
F		
Farmer, Richard T Cintas Corp. ($1.4 BILLION)	232	2
Field, Frederick Woodruff music, movies. ($900 MILLION)	136	3
Filo, David Yahoo. ($2.6 BILLION)	256	
Fireman, Paul Barry Reebok. ($830 MILLION)	232	3
Fisher, Donald George Gap. ($1.1 BILLION)	232	2
Fisher, Doris Feigenbaum Gap. ($1.1 BILLION)	232	2
Fisher, John J ◇ Gap. ($1.5 BILLION)	232	1
Fisher, Max Martin investments. ($775 MILLION)	250	3
Fisher, Robert J ◇ Gap. ($1.5 BILLION)	230	1
Fisher, William Sydney ◇ Gap. ($1 BILLION)	232	2
Flatley, Thomas John real estate. ($1.2 BILLION)	260	2
Flowers, J Christopher ★ investments. ($1 BILLION)	204	2
Ford, Gerald J banking. ($1.4 BILLION)	200	2
Ford, William Clay Sr Ford Motor Co. ($1 BILLION)	188	2

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Name	Page	Rank
France, James C auto racing. ($1.3 BILLION)	224	215
France, William C Jr auto racing. ($1.3 BILLION)	224	215
Frank, Sidney ★ liquor. ($1.6 BILLION)	236	152
Friedland, Robert M ★ mining. ($800 MILLION)	250	369
Frist, Thomas F Jr & family HCA Healthcare. ($960 MILLION)	180	324
Frost, Dr Phillip ◇ Ivax Corp. ($850 MILLION)	180	352
Fung, Victor distribution. ($900 MILLION)	227	340
G		
Gage, Barbara Carlson & family inheritance. ($1.4 BILLION)	165	203
Galán, Victor J ★ banking. ($800 MILLION)	204	369
Gallo, Ernest wine. ($950 MILLION)	240	327
Galvin, Robert William ◇ Motorola. ($800 MILLION)	212	369
Gates, Charles Cassius Jr automotive products. ($1.3 BILLION)	210	215
Gates, William Henry III Microsoft. ($48 BILLION)	104	1
Geffen, David entertainment. ($4.4 BILLION)	128	37
Gerry, Alan Cablevision Industries. ($1.2 BILLION)	134	234
Getty, Caroline Marie inheritance. ($775 MILLION)	250	383
Getty, Gordon Peter oil. ($2.1 BILLION)	234	102
Glazer, Guilford shopping malls. ($900 MILLION)	264	340
Glazer, Malcolm shopping malls, investments. ($1 BILLION)	188	278
Goldsbury, Christopher salsa. ($1.3 BILLION)	238	215
Golisano, Blase Thomas Paychex. ($1 BILLION)	226	278
Gonda, Leslie L International Lease Finance. ($1.5 BILLION)	218	165
Gonda, Louis L International Lease Finance. ($1.9 BILLION)	216	118
Goodnight, James SAS Institute. ($3.2 BILLION)	116	55
Gores, Alec leveraged buyouts. ($1.3 BILLION)	148	215
Gores, Tom T leveraged buyouts. ($1.7 BILLION)	256	142
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Green, Pincus commodities. ($1.1 BILLION)	248	260
Greenberg, Maurice Raymond American International Group. ($3.1 BILLION)	176	59
Griffin, Kenneth C hedge funds. ($825 MILLION)	256	363
Gross, William H ★ bonds. ($1 BILLION)	150	278
H		
Hall, Donald Joyce Hallmark. ($1.6 BILLION)	208	152
Hamilton, Dorrance Hill inheritance. ($930 MILLION)	238	334
Harbert, Marguerite inheritance. ($1.2 BILLION)	226	234
Hascoe, Norman investments. ($800 MILLION)	212	369
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Hearst, David Whitmire Jr Hearst Corp. ($1.8 BILLION)	130	124
Hearst, George Randolph Jr Hearst Corp. ($1.8 BILLION)	130	124
Hearst, William Randolph III Hearst Corp. ($1.9 BILLION)	130	118
Heisley, Michael E Sr manufacturing. ($850 MILLION)	190	352
Helmsley, Leona real estate. ($2.2 BILLION)	165	97
Hendricks, Kenneth ★ building supplies. ($850 MILLION)	212	352
Herb, Marvin J soft-drink bottling. ($1 BILLION)	238	278
Hillman, Henry Lea industrialist. ($2.8 BILLION)	194	68
Hilton, William Barron ◇ hotels, casinos. ($775 MILLION)	227	383
Holding, Robert Earl oil refining, resorts. ($1.3 BILLION)	248	215
Honickman, Harold soft-drink bottling. ($775 MILLION)	240	383
Hostetter, Amos Barr Jr Continental Cablevision. ($2.1 BILLION)	129	102
Hubbard, Stanley Stub DirectTV. ($1.2 BILLION)	133	234
Hughes, Bradley Wayne Public Storage. ($2.5 BILLION)	216	79
Huizenga, H Wayne entrepreneur. ($1.8 BILLION)	186	124
Hunt, Ray Lee inheritance, oil, real estate. ($2.3 BILLION)	246	92
Huntsman, Jon Meade chemicals. ($2.3 BILLION)	206	92
I		
Icahn, Carl leveraged buyouts. ($7.6 BILLION)	192	21
Ilitch, Michael ◇ pizza. ($750 MILLION)	190	369
Ingram, Martha R & family Ingram Industries. ($2.5 BILLION)	164	79
J		
Jackson, Jess Stonestreet wine. ($1.8 BILLION)	236	124
Jacobs, Irwin Mark Qualcomm. ($930 MILLION)	124	334
Jacobs, Jeremy Maurice Sr sports concessions. ($1 BILLION)	226	278
Jamail, Joseph Dahr Jr lawsuits. ($1.3 BILLION)	222	215
Jannard, James Oakley. ($1.2 BILLION)	232	234
Jobs, Steven Paul Apple Computer. ($2.6 BILLION)	116	74
Johnson, Abigail Fidelity. ($12 BILLION)	163	12
Johnson, Barbara Piasecka inheritance. ($2.6 BILLION)	176	74
Johnson, Charles Bartlett Franklin Resources. ($2.5 BILLION)	144	79
Johnson, Edward Crosby III Fidelity. ($6 BILLION)	142	21
Johnson, H Fisk ★ SC Johnson & Sons. ($1.5 BILLION)	208	165
Johnson, Imogene Powers ★ SC Johnson & Sons. ($1.5 BILLION)	208	165
Johnson, Rupert Harris Jr Franklin Resources. ($2 BILLION)	144	10
Johnson, S Curtis ★ SC Johnson & Sons. ($1.5 BILLION)	208	165
Johnson-Leipold, Helen ★ SC Johnson & Sons. ($1.5 BILLION)	208	165
Johnson-Marquart, Winnie ★ SC Johnson & Sons. ($1.5 BILLION)	208	16
Jones, Jerral W Dallas Cowboys, oil & gas. ($1 BILLION)	188	27
Jones, Paul Tudor II hedge funds. ($1 BILLION)	150	27
Joseph, George insurance. ($1 BILLION)	180	27
K		
Kaiser, George B oil & gas, banking. ($4 BILLION)	244	4
Kao, Min H navigation equipment. ($950 MILLION)	124	32
Katzenberg, Jeffrey movies. ($800 MILLION)	136	36
Keinath, Pauline MacMillan inheritance. ($975 MILLION)	220	31
Kellogg, Peter R investments. ($1.8 BILLION)	198	12
Kellogg, William S Kohl's. ($1.1 BILLION)	232	26
Kerkorian, Kirk investments, casinos. ($5.8 BILLION)	192	3
Kerry, Teresa F Heinz ◇ inheritance. ($750 MILLION)	240	38
Kim, James & family microchips. ($880 MILLION)	124	34
Kinder, Richard pipelines. ($1.6 BILLION)	248	15
Kluge, John Werner Metromedia. ($11 BILLION)	126	1
Knight, Philip H Nike. ($7.4 BILLION)	230	2
Koch, Charles De Ganahl oil, commodities. ($4 BILLION)	242	4
Koch, David Hamilton oil, commodities. ($4 BILLION)	242	4
Kohlberg, Jerome Spiegel Jr leveraged buyouts. ($1 BILLION)	154	27
Kohler, Herbert & family plumbing fixtures. ($2.1 BILLION)	206	10
Kovner, Bruce hedge funds. ($2 BILLION)	144	10
Krasny, Michael CDW Corp. ($1.5 BILLION)	172	16
Kravis, Henry R leveraged buyouts. ($1.5 BILLION)	146	16
Krehbiel, John Hammond Jr Molex. ($850 MILLION)	212	35
Kroenke, Ann Walton Wal-Mart. ($3 BILLION)	185	6
Kroenke, E Stanley sports, real estate. ($1.4 BILLION)	185	20
L		
Lampert, Edward S investments. ($1.7 BILLION)	146	14

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Name	Page	Rank
Langone, Kenneth G investments. ($1.1 BILLION)	202	260
Lauder, Leonard Alan cosmetics. ($3.2 BILLION)	230	55
Lauder, Ronald Steven cosmetics. ($2.1 BILLION)	230	102
Lauren, Ralph fashion. ($2.7 BILLION)	230	72
Laurie, Nancy Walton Wal-Mart. ($2.8 BILLION)	163	68
Lee, Thomas Haskell leveraged buyouts. ($1.2 BILLION)	150	234
Lenfest, Harold FitzGerald Lenfest Cable. ($800 MILLION)	138	369
Lerner, Norma inheritance. ($1.2 BILLION)	188	234
Lerner, Randolph D inheritance. ($1.2 BILLION)	188	234
Levine, Leon & family Family Dollar Stores. ($840 MILLION)	172	361
Levine, William S billboards. ($750 MILLION)	190	389
Lewis, Peter Benjamin Progressive Corp. ($1.6 BILLION)	178	152
Lindemann, George L & family natural gas, media. ($1.3 BILLION)	202	215
Lindner, Carl Henry Jr & family investments. ($1.8 BILLION)	186	124
Lucas, George Star Wars. ($3 BILLION)	128	60
Lupton, John Thomas soft-drink bottling. ($800 MILLION)	240	369
M		
MacMillan, Cargill Jr Inheritance. ($975 MILLION)	220	315
MacMillan, John Hugh III inheritance. ($975 MILLION)	220	315
MacMillan, W Duncan inheritance. ($975 MILLION)	220	315
MacMillan, Whitney inheritance. ($975 MILLION)	220	315
Magerko, Maggie Hardy 84 Lumber. ($1.2 BILLION)	166	234
Magness, Gary inheritance. ($875 MILLION)	136	349
Malone, John C cable television. ($1.7 BILLION)	130	142
Malone, Mary Alice Dorrance inheritance. ($1.6 BILLION)	238	152
Mann, Alfred inventor, entrepreneur. ($1.4 BILLION)	178	203
Manoogian, Richard Alexander Masco. ($950 MILLION)	210	327
Marcus, Bernard Home Depot. ($2 BILLION)	172	106
Marion, Anne Windfohr inheritance, oil. ($1 BILLION)	250	278
Marriott, John Willard Jr hotels. ($1.2 BILLION)	222	234
Marriott, Richard Edwin hotels. ($1.4 BILLION)	222	203
Mars, Forrest Edward Jr candy. ($10 BILLION)	234	17
Mars, Jacqueline candy. ($10 BILLION)	234	17
Mars, John Franklyn candy. ($10 BILLION)	234	17
Marshall, Barbara Hall Hallmark. ($800 MILLION)	208	369
Marshall, E Pierce investments. ($1.6 BILLION)	246	152
Marsico, Thomas mutual funds. ($825 MILLION)	160	363
Mathile, Clayton Lee Iams. ($1.8 BILLION)	236	124
May, Cordelia Scaife inheritance. ($825 MILLION)	202	363
Mays, L Lowry Clear Channel. ($1.1 BILLION)	134	260
McCaw, Bruce R McCaw Cellular. ($850 MILLION)	120	352
McCaw, Craig O McCaw Cellular. ($2 BILLION)	120	106
McCaw, John Elroy Jr McCaw Cellular. ($810 MILLION)	120	368
McCombs, Billy Joe "Red" radio, cars, oil. ($1.2 BILLION)	188	234
McGovern, Patrick Joseph IDG. ($2 BILLION)	129	106
McLane, Robert Drayton Jr Wal-Mart, logistics. ($1.3 BILLION)	186	215
McNair, Robert C energy. ($1.5 BILLION)	248	165
Menard, John R Jr home improvement stores. ($3.7 BILLION)	172	51
Milken, Lowell Jay investments. ($800 MILLION)	204	369
Milken, Michael Robert investments. ($1 BILLION)	204	278
Milliken, Roger textiles. ($750 MILLION)	212	389
Mitchell, George Phydias Mitchell Energy. ($1.8 BILLION)	246	124
Moore, Gordon Earle Intel. ($3.8 BILLION)	116	49
Moores, John Jay software. ($750 MILLION)	190	389
Moran, James Martin Toyota distributor. ($1.4 BILLION)	220	203
Morean, William Jabil Circuit. ($900 MILLION)	210	340
Moreno, Arturo billboards. ($850 MILLION)	190	352
Morgridge, John P Cisco. ($1.4 BILLION)	120	203
Munger, Charles T investments. ($1.6 BILLION)	200	152
Murdoch, Keith Rupert News Corp. ($6.9 BILLION)	128	27
Murdock, David Howard investments. ($1.7 BILLION)	198	142
N		
Naify, Robert Allen movie theaters. ($1.2 BILLION)	134	234
Nash, Jack investments. ($750 MILLION)	204	389
Nathanson, Marc B ★ cable, investments. ($800 MILLION)	138	369
Nelson, Marilyn Carlson inheritance. ($1.4 BILLION)	165	203
Newhouse, Donald Edward publishing. ($7 BILLION)	126	25
Newhouse, Samuel Irving Jr publishing. ($7 BILLION)	126	25
Nicholas, Henry Thompson III Broadcom. ($1.6 BILLION)	120	15
Nicholas, Peter M Boston Scientific. ($3.8 BILLION)	176	[illegible]
O		
Oates, Marvin L "Buzz" real estate. ($825 MILLION)	264	3[illegible]
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Peltz, Nelson leveraged buyouts. ($1 BILLION)	202	2[illegible]
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Perelman, Ronald Owen leveraged buyouts. ($4.2 BILLION)	192	[illegible]
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Perry, Claire Eugenia Getty inheritance. ($775 MILLION)	250	3[illegible]
Pickens, T Boone Jr ★ oil & gas, investments. ($750 MILLION)	250	3[illegible]
Pictet, Marion MacMillan inheritance. ($975 MILLION)	220	3[illegible]
Pohlad, Carl banking. ($2.3 BILLION)	186	[illegible]
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Pritzker, Anthony ★ hotels, investments. ($1.5 BILLION)	200	1[illegible]
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Pritzker, Karen ★ hotels, investments. ($1.5 BILLION)	200	1[illegible]
Pritzker, Linda ★ hotels, investments. ($1.5 BILLION)	200	1[illegible]
Pritzker, Nicholas J II ★ hotels, investments. ($1.2 BILLION)	200	2[illegible]
Pritzker, Penny ★ hotels, investments. ($1.6 BILLION)	198	1[illegible]
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R		
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★ New Entry ◇ Return

"The true winners of these Awards are the many people who stand to benefit from the innovations the Awards are intended to recognize."

~ Kofi A. Annan, Secretary-General, United Nations

Congratulations to the Laureates of The Tech Museum Awards 2004

Environment Award Laureates

Citizens Against Ruining our Environment, USA

t Protection Corporation, Uruguay

id Kuykendall and Jim Hunter,
ultural Research Service, USDA, USA

Kenneth Owens, Jr. and Paul Burgess,
oldt State University, USA

hulai Swanirvar Sangstha (SSS), Bangladesh

enture Economic Development Award

re for Development of Disadvantaged People, India

meen Foundation USA – Grameen Technology Center, USA

genous Stock Exchange, Australia

national Development Enterprises-International, USA

ir Bahadur Singh, Nigeria

Microsoft Education Award

Baruch College Computer Center for Visually Impaired People & Touch Graphics, Inc., USA

DonorsChoose, USA

iEARN-USA, USA

Andrew E. Lieberman,
Asociación Ajb'atz' Enlace Quiché, Guatemala

National Society for Earthquake Technology – Nepal, Nepal

Agilent Equality Award

Rodrigo Baggio, Committee for the Democratization of Information Technology-CDI, Brazil

CARE, USA

Engineers Without Borders Canada, Canada

NetHope, USA

Whirlwind Wheelchair International at San Francisco State University, USA

Health Award

Fritz Institute, USA

Dr. Ashok Gadgil, Lawrence Berkeley National Laboratory, USA

Integrated Medical Systems, Inc., USA

SATELLIFE, USA

Singapore Infra-red Fever Screening System (IFSS) Team,
Defence Science & Technology Agency,
Singapore Technologies Electronics, Ltd.,
Chartered Electro-Optic, Singapore

The Tech Museum Awards honor those who are using technology to address The United Nations' 15 most urgent global challenges facing humanity and the environment. Of 580 nominations from 80 countries, 25 Laureates have been selected to be honored on November 10th. Five recipients will share $250,000.

For more information on The Tech Museum Awards or to purchase tables or tickets to the Awards Gala, please call **408-795-6227** or visit **www.techawards.org**.

THE TECH MUSEUM AWARDS
Technology Benefitting Humanity

TheTech
museum of innovation

Name	Page	Rank
Rainwater, Richard Edward real estate, energy, insurance. ($2 BILLION)	198	106
Rales, Mitchell P Danaher Corp. ($1.9 BILLION)	206	118
Rales, Steven M Danaher Corp. ($1.9 BILLION)	206	118
Redstone, Sumner M Viacom. ($8.1 BILLION)	126	20
Reid, Elizabeth Ann Hall Hallmark. ($800 MILLION)	208	369
Rich, Marc David commodities. ($1.1 BILLION)	248	260
Rich, Robert Edward Sr nondairy creamer. ($2 BILLION)	236	106
Ricketts, J Joseph & family Ameritrade. ($1.5 BILLION)	218	165
Rizzuto, Leandro P manufacturing. ($900 MILLION)	210	340
Roberts, George R leveraged buyouts. ($1.5 BILLION)	146	165
Robertson, Julian H Jr money management. ($850 MILLION)	157	352
Robinson, Jesse Mack banking, insurance. ($1 BILLION)	250	278
Rock, Arthur J venture capital. ($975 MILLION)	154	315
Rockefeller, David Sr Standard Oil, banking. ($2.5 BILLION)	244	79
Rockefeller, Winthrop Paul Standard Oil. ($1.2 BILLION)	246	234
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Samueli, Henry Broadcom. ($1.5 BILLION)	120	165
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Sandler, Marion O banking. ($920 MILLION)	166	337
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Saul, Bernard Francis II banking, real estate. ($900 MILLION)	262	340
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Schmidt, Eric ★ Google. ($1.5 BILLION)	120	16
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Shvidler, Evgeny Markovich ★ oil. ($1.8 BILLION)	256	12
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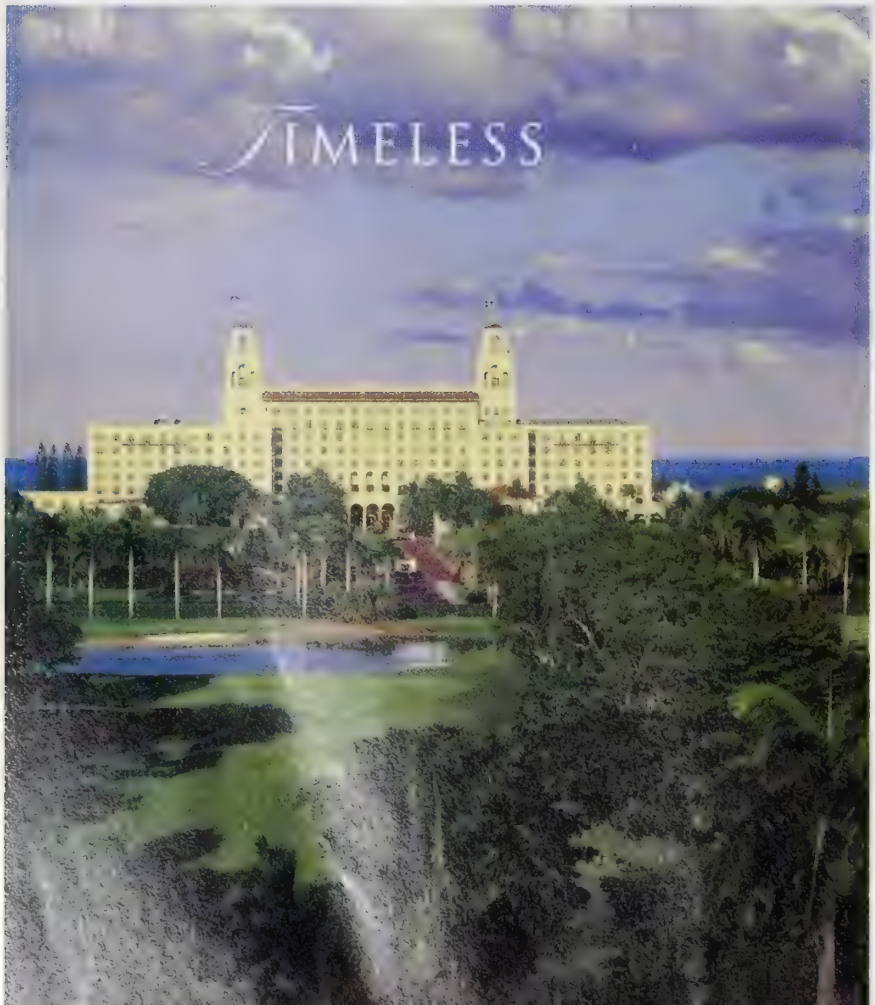
Simon, Melvin real estate. ($1.6 BILLION)	260	15
Simons, James H ★ hedge funds. ($2.5 BILLION)	142	7

★ New Entry ◇ Returnee



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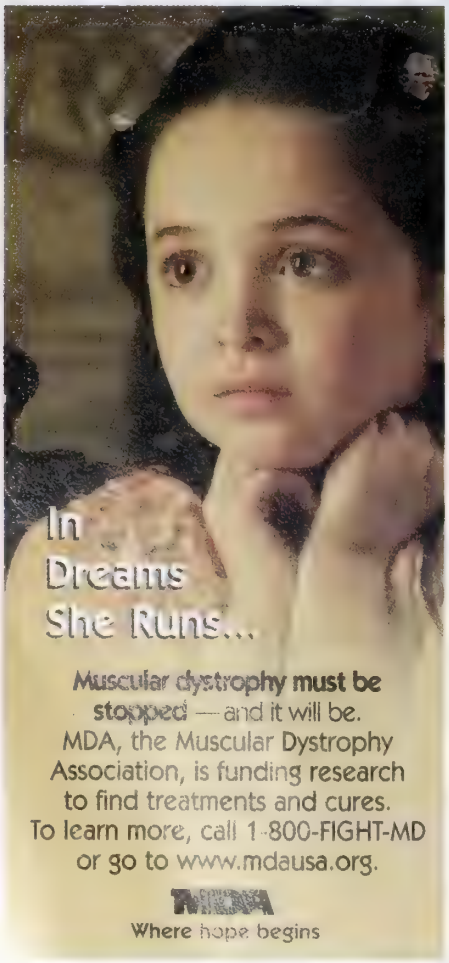

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★ New Entry ◇ Return

In this business, all the trading takes place at the top of the leaderboard.

CHAMPIONS TOUR

With the Champions Tour's most prestigious prize at stake, these guys put all their stock in winning. Will Hale Irwin maintain his lead and capture this season-long, points-based competition for the second time, or will a new champion prevail? It remains to be seen. Tune into The Golf Channel to see who will win the $1 million annuity, the prestigious cup and all-out bragging rights.

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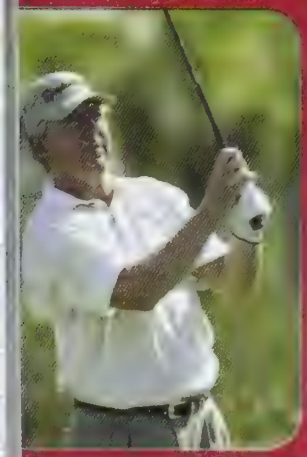

Mansion

THE IDEA CAME TO HIM AT 3 O'CLOCK IN THE morning, says Ronald Anderson, Hollywood's trailersmith-to-the-stars. He'd been pondering how best to build a supremely roomy trailer—one with enough headroom to accommodate 6-foot-2 Will Smith and Smith's 7-foot bodyguard. He sketched it out on paper: a monstrous 22-wheel tractor trailer. Like other travel trailers, it pops out its des for added room. But the pièce de résistance of Anderson's sign—the feature that he later patented—is a second story sted inside the first.

Push a button and the upper floor emerges, extruded by comuter-controlled electric motors in 30 seconds. "It's like a giant ansformer," says Anderson, referring to the children's toy. This y, the Anderson Mobile Estate, costs $1.8 million, weighs 40 ns, is 75 feet long and contains 1,200 square feet of living space.

By comparison, the much-ballyhooed bus that football commentator John Madden lives in between games has only 325 square feet, says Anderson. He should know; for 20 years he has been in the customized bus business, making land yachts for the likes of Sylvester Stallone and Hugh Hefner.

Fitted out with a panoply of communications gear, an Anderson Estate allows its occupant to do business anywhere. "That's what my clients want," says Anderson, "a tool that lets them be fully engaged when they're away from home."

In 2000 Anderson sold his prototype, called Aspen, to Will Smith. Then, a year ago Smith traded up to Babygirl, whose first floor contains a recording studio. The star used it to produce an L.A. television show from Vancouver, B.C. The first floor also has three plasma-screen TVs, two all-granite bathrooms and a full-service 14-foot-tall kitchen equipped with marble floors, clerestory windows, Sub-Zero fridge and matched-grain Italian cherrywood cabinetry (see photos: www.andersonmobileestates.com).

on Wheels

Got a hankering to look down on hoi polloi RVs? Get an Anderson Mobile Estate.

BY ALAN FARNHAM

Next stop, Brobdingnag: Ronald Anderson stop his 88,000-pound, 22-wheel, 2-story Mobile Estate.

Welcome home! Anderson in living room of Aspen; upstairs bedroom; kitchen with 6cm granite countertops *(clockwise from above)*.

Upstairs there's a bedroom with a king-size bed, a sitting area that accommodates 30, a children's play area and two more plasma-screen TVs (one 50 inches, the other 65 inches). There's a satellite uplink. When the wind outside exceeds 15 miles an hour, an anemometer tells the awnings to fold up.

Security is tight. On one Estate a thumbprint scanner controls access to the bedroom. Should an unauthorized party enter the trailer when the owner is away, the security system dials his cell phone and transmits an image of the intruder.

The most sophisticated technology is concealed in the engineering of the trailer shell itself. At highway speeds Babygirl flexes. Torque twists all eight nested walls. Unless the right balance is struck between flexibility and rigidity, veneers can crack, cabinets pop off. "Millimeters make a difference in my business," says Anderson. Worst of all, the inner and outer shells can get out of alignment, so that when the upper floor starts to rise, it binds against the lower.

After much frustration and $4 million of development, Anderson eventually teamed up with metallurgist and stress analyst Gerald Clancy, an engineer whose prime attribute, according to Anderson, "was that he'd never built a trailer." Starting from a clean slate, Clancy achieved "mechanical perfection." Veneers no longer pop. But human error can still make setup and takedown ticklish. Furnishings on the second floor, for example, are positioned so they don't get squished when the roof comes down. An upstairs dividing wall folds in half. But leave a metal candlestick standing upright by mistake and it will impale the roof.

With every Estate client, Anderson's objective is the same: "I want to trigger that part of their brain that says, 'I'm home.'" To that end he visits customers' residences, borrowing homey details. For Will Smith's Aspen, he included chessboards, cowhide pillows and African masks. Says Anderson, "I know I've suc ceeded if a client touches his face in th first five minutes." He brings both hanc to his cheeks in an "Oh, my!" gesture.

One-upmanship, as much as home sickness, draws would-be owners. On shoot with several stars and several trai ers, two-story talent stands out. "You'r up there looking down," explains Ande son's associate Gary Ballen. "Guys in one story trailers ask themselves, Why is he u there and I'm not?"

In the four years since Anderso began making Estates, he's changed h focus from selling to renting. "Two yea ago we bought back every unit we coul so that now I own four of the six." He d that, he says, so he can make su Estates are being properly mair tained. "I'm too much of a contr freak to do otherwise."

Here's the deal he offers: A cu tomer pays nothing up front. In e change for his commitment to re an Estate for six months a ye ($227,000) for five years, he ca design his own, provided the co doesn't exceed $1.8 millio Anderson then is free to rent th trailer to other customers the re of the year.

Robert De Niro and Vin Dies currently have Estates und construction. Diesel's, scheduled f delivery in May, has a sunroof who technology comes from Daimle Chrysler's Maybach: At the touch of switch, it goes from clear to opaque, or any transparency in between.

Australian entrepreneur Steve Ou trim, owner of touch-screen technolo company Majitek, thinks the potenti audience for Estates extends well beyo actors. "Lawyers, politicians, busine leaders—they all have to be offsite fro time to time. It makes sense for them have the same comfort and privacy they'd have at home." He's negotiati with Anderson for an Estate of his ow "For myself, I'd use it for travel and vac tion. I could have it sent on ahead into t Outback. Then I'd land next to it in r King Air. Rather than have to dig a hole the ground to do my business, I'd have small luxury apartment."

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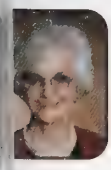

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The Rail World

How a private luxury train chugged past South Africa's legendary state-owned Blue Train.

BY SUSAN ADAMS

IN 1986 ROHAN VOS, A WEALTHY SOUTH African auto-parts dealer, bought several vintage railcars for his private amusement. He wanted to take his wife, four children and four dogs on a jaunt. He phoned Spoornet, the main state railway of South Africa, to rent a locomotive. Sure, said Spoornet. But the price caused Vos to blanch. Well then, suggested the officious official, Vos would simply have to take along some paying passengers.

Flummoxed, Vos took to his tub. "I brought a bottle of rum to the bath and tried to work out what I should do with this curveball," he recalls. What emerged Venus-like from these rum-scented waters was Rovos Rail: a private, for-profit luxury railroad.

Since it started up in 1989, Vos' venture has been blowing steam in the face of Spoornet's own luxury choo-choo, the Blue Train, whose pedigree is enviable. In 1947 the Blue Train was the vehicle of choice for George VI and the royal family when they toured South Africa. Today, however, Rovos offers comparable luxury, carries more passengers and serves more routes.

Into Africa: a Rovos Rail train, heading east.

The two trains charge similar rates. The Cape Town-to-Pretoria run on Rovos costs $1,520 per person (double occupancy) for the so-called Deluxe Suite. The fare includes food, drinks of all sorts and side trips. On the Blue Train, equivalent accommodation costs $1,390.

To hear Vos tell it, he and Spoornet enjoy a "competitively amicable" relationship. He needs its track; it needs his track rental fees. "The Blue Train is my competition and also my supplier," he explains. "They have me by the proverbial shorts. I don't shoot them when they're not looking."

The two can coexist because they appeal to different constituencies. Not tourists alone but also businesspeople occasionally take the Blue Trai Bryan Slingers, chairman Ogilvy Cape Town, considers an ideal place to pitch accounts, since h audience is captive. The wine selection, says, is superb, and there is "lots of lob ster." He slept soundly on the overnigl trip to Pretoria (994 miles), which th Blue Train dispatched in 27 hours. Th same route on Rovos takes 48. That because Rovos makes more stops an lingers longer at such touristy spots as diamond mine in Kimberley.

In 1997 Spoornet hired Dallas designe ers Wilson & Associates to completely rec the Blue Train's interior. The result—slee modern, elegant, restrained—was deeme so chic that *Architectural Digest* devoted pictorial to it in 2002. Rovos' decor contrast gives chintz full throttle.

Vos and his wife, Anthea, chose all th fabrics and furnishings themselves. Rov is one of the few railways in the wor (another being the Royal Scotsma

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Rovos' Edwardian dining car *(left)*, a locomotive *(middle)*, Rohan Vos and friend *(right)*; a Rovos train chugging to Dar es Salaam *(bottom)*.

whose beds do not fold up. They remain full-size all the time. Whereas the Blue Train is pulled by no-nonsense diesel and electric engines, Rovos offers passengers a retro whiff of steam, though only for the first hour into or out of Pretoria. Guests get safety goggles, so they can stick their heads out windows without fear of getting cinders in their eyes. Windows on the Blue Train don't even open.

American Owen Hardy, chief of the Society of International Railway Travelers, has ridden both trains. The Blue, he says, "is elegant in a modern way." Rovos "is almost like a Hollywood set, trying to recreate something that never actually existed." Vos' penchant for romance runs rampant at Capital Park, a station outside Pretoria where he holds a long-term lease. Though it was built in 1943, it sports a faux late-Victorian facade (added by Vos) that gives way to a spacious waiting room, where ceiling fans rotate above potted palms. A host announces each traveler by name (children are addressed as "master" and "miss"). Champagne is served. A fountain stocked with goldfish burbles on the platform.

Aboard the train, guests discove spacious, wood-paneled suites, each wit a bed, two upholstered lounge chairs an a writing table, on which is set a bud vas with a rose. A butler appears, demon strating how to open the windows, oper ate the air-cooling system or order te or a nightcap. (A staff of 24 cares for a average 50 passengers.) There's n phone or television, which accentuate

Guests feel COCOONED, CUT OFF, SUSPENDED in time.

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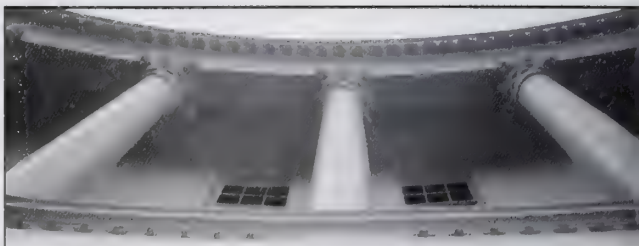

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Slip out into the narrow hallway, and you feel like a character in *Murder on the Orient Express*, especially when at dinnertime you've donned the proper attire (men must wear jacket and tie in the Edwardian-style dining car). As your waiter places a starched, white napkin in your lap, pours an award-winning South African cabernet and serves kebab-of-crocodile with lime and roasted garlic, you wonder if perhaps the Russian gent with the ample gut sitting across from the blonde with the sumptuous cleavage might be up to no good.

Rovos' most special feature is its observation car, where a well-stocked bar stays open until the last guest has gone to bed. Dishes of nuts and potato crisps sit within easy reach of armchairs. The tail end of the car is open to the elements, giving guests an unobstructed view of such spectacular scenery as the escarpment that drops precipitously from the high veld of Johannesburg and Pretoria.

Vos operates three trains, two with 20 cars (13 of which are sleepers), and one with 14 cars—an investment of some $15 million. The company, he says, has just emerged from its off-season (South Africa's winter, May through August) squarely in the black. If the year ends with trains having run more than 50% full, Vos expects to turn a profit.

How big? He won't say. Nor will he disclose his costs. Geoff Cooke, a former fellow operator who used to run a steam train in Zimbabwe, explains that Vos is smart to stay mum: "You're a private operator on tracks owned by a [public] monopoly. If you start showing reasonable profits, the monopoly will put your rates up." Cooke says a likely price for using state rails in Africa is between $10,000 to $20,000 a day per train. But that's nothing compared to the cost of keeping vintage engines running. An industry joke goes like this: Half the people in insane asylums think that they're Napoleon; the other half think they can make money running a passenger railroad.

Whatever money Vos makes he plows right back into the business: "We'r always on the bones of our ass, becaus we're growing, growing, spending, spenc ing." His most recent purchase: airplane Political unrest in Zimbabwe has wrougl havoc with some of Rovos' most popula itineraries taking tourists to see Victori Falls. His solution: fly around the troubl Railroad passengers disembark in Pieters burg, South Africa, then Vos' vintag planes take them safely to the Zambia side of the Falls.

Three years ago Vos paid $500,00 each for two 1954 piston-engine Conva 440s. The only hitch: The seller was i Bolivia and the planes were not designe for long hauls. So Vos filled each interic with seventeen 44-gallon fuel tanks an had the planes cross the Atlantic at i narrowest point, between Port Natal Brazil and Abidjan, Ivory Coast. It co him another $1.5 million to upgrade th aircraft to South African safety standard He's since bought a 1944 DC-3.

In 15 years Vos has expanded to offe eight rail itineraries, including a nine-da "golf safari" combining golf, wild-gam viewing and a visit to the resort an casino at Sun City. The Blue Train chug along with only two, each lasting no mor than two nights. "We haven't stolen pas sengers from them," insists Vos. "I woul say we've created our own market."

Taking flight: Rovos Air takes guests over Victoria Falls on air safaris and chartered trips.

Changing Trains

Southern Africa offers a variety of short- and long-haul alternatives to Rovos Rail and the Blue Train:

Union Limited. Owned by the South African government, this restored train recreates vintage 1930s multinight rail trips along the so-called Garden Route on South Africa's southern coast and inland through the wine lands.

Shongololo Express. Offers trips through seven countries (South Africa, Namibia, Botswana, Zambia, Zimbabwe, Swaziland, Mozambique), including a 16-night itinerary in Namibia. Name in Zulu means "millipede."

Desert Express. Runs a 20-hour journey between Windhoek in central Namibia, through the desert, on to Swakopmund on the coast.

Short-haul trains include the Outeniqua Choo Tjoe, the Magaliesberg Express and the narrow-gauge Apple Express. —*S.A.*

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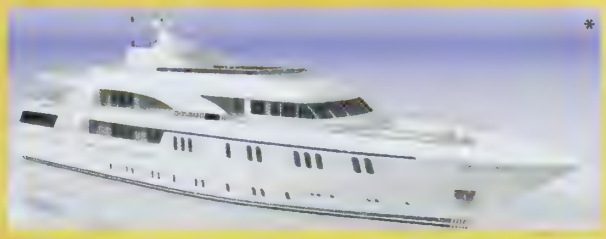

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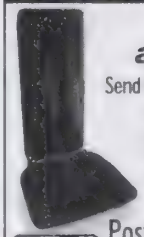

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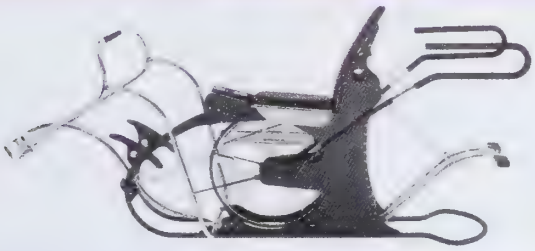

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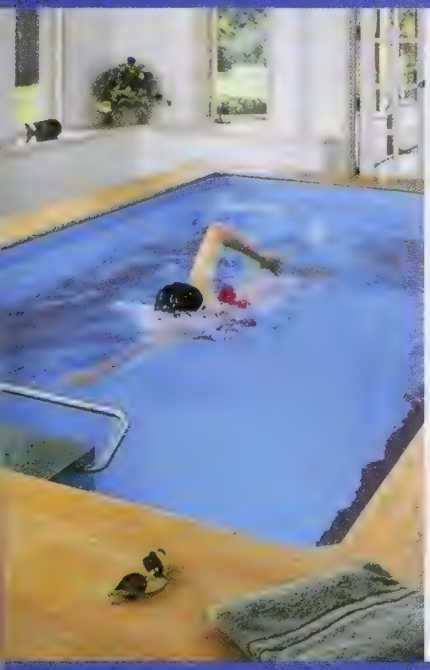

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On the Business of Life

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—MALCOLM S. FORBES (1983)

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I have the same credo with my land as I had with my business: He who profits most serves the best.

—TED TURNER

I grew up very poor. Getting rich, that was my whole focus in life.

—KENNY TROUTT

I want to give back, and I also have a big ego. I'd rather be recognized for doing good than for just making money.

—ELI BROAD

What I'm most proud of is the fact that my casinos have been responsible for 2,500 jobs. That in itself is enough to motivate me not to screw up.

—GEORGE MALOOF JR.

We certainly don't listen to Wall Street's advice.

—HERBERT M. SANDLER

I've always liked shaking things up.

—PETER LEWIS

I have no interest in making money anymore. Everything I make in the entertainment business will go to charity.

—DAVID GEFFEN

The future of this nation lies with new ventures. They supply the new projects, the new technologies and the new jobs.

—ARTHUR ROCK

You guys blew it! I don't know what the hell I'm worth. I don't have a clue. I don't even understand how you fellows figured this thing. You fascinate me. I mean, the banks can't even do it. You're too much.

—A. ALFRED TAUBMAN

Wealth is a great thing to have and a gre thing to share.

—HAROLD HONICKMA

I never thought I'd make it big. If I felt I had made it, I would be somewhere nice, like St. Moritz, skiing.

—ESTÉE LAUDI

I will just create, and if it works, it works, and if it doesn't, I'll create something else I don't have any limitations on what I think I could do or be.

—OPRAH WINFRE

A Text...

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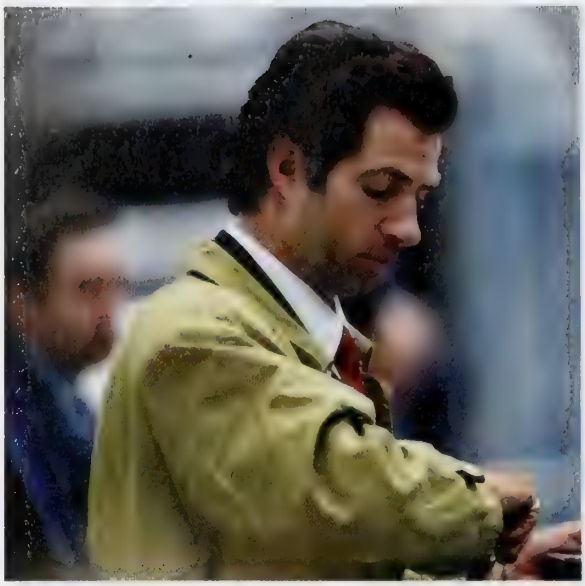

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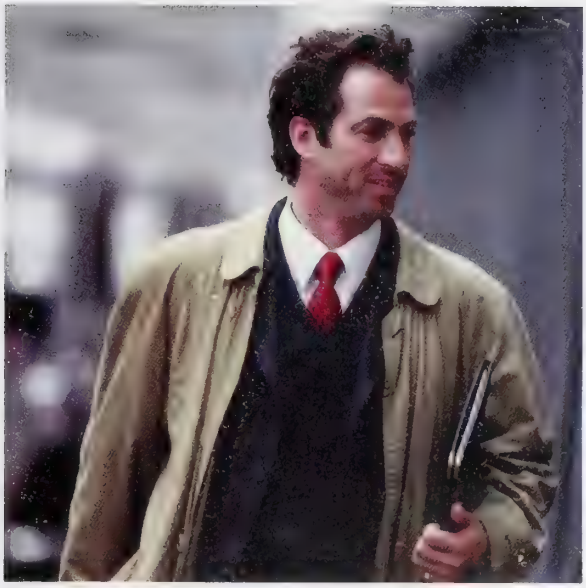

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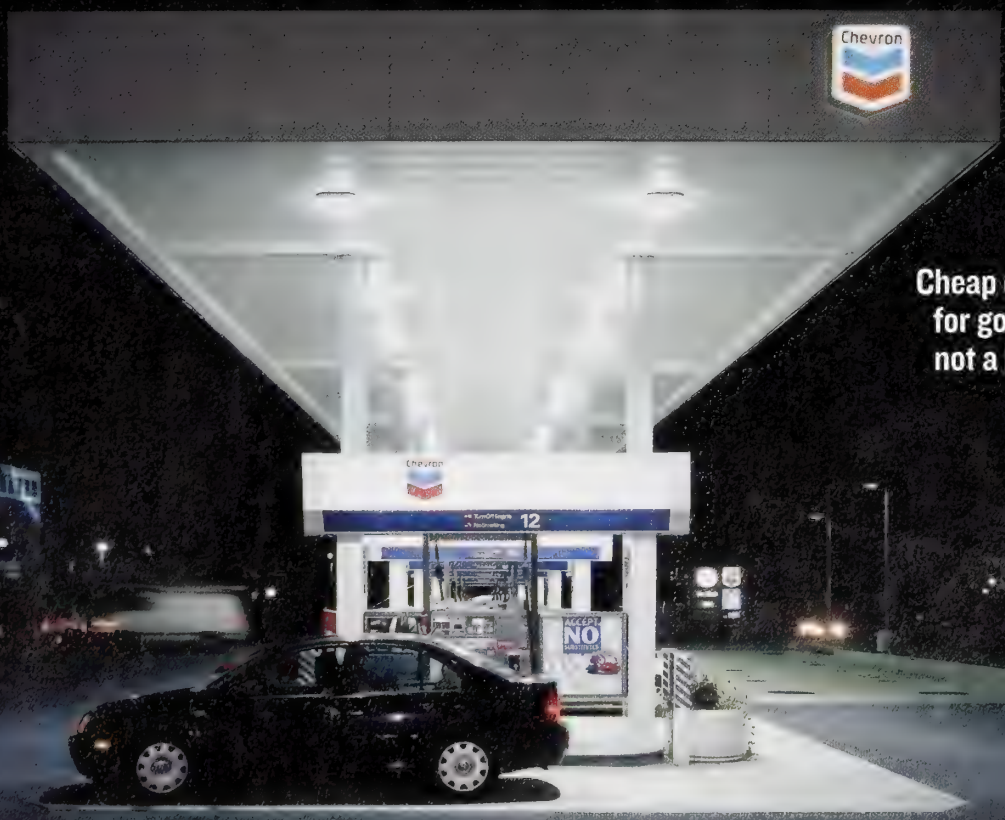

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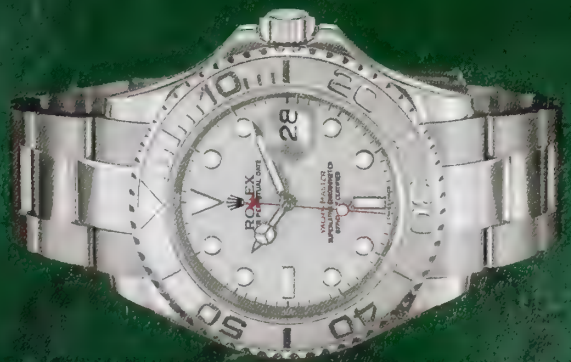

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Lifestyle

Tech to Go
Christina Valhouli

In the old days, if business travelers needed to stay in touch with headquarters, their best bet was to try to find a telegraph office. Today, thanks to technological advances, a phone call, voice message, e-mail or text message can be sent and received from almost anywhere in the world. The same goes for sending spreadsheets and images, including PowerPoint presentations. It's just a question of using the right gear. Whether they are on an oil rig in the middle of the North Sea or in a taxicab in Tokyo, smart executives know that having the latest in high-tech tools can mean the difference between being a road warrior or roadkill. Visit us at Forbes.com for picks of new gear, such as Sony's lightweight X505 laptop, RIM's BlackBerry 7100T or the Kanguru Fire Flash memory key.

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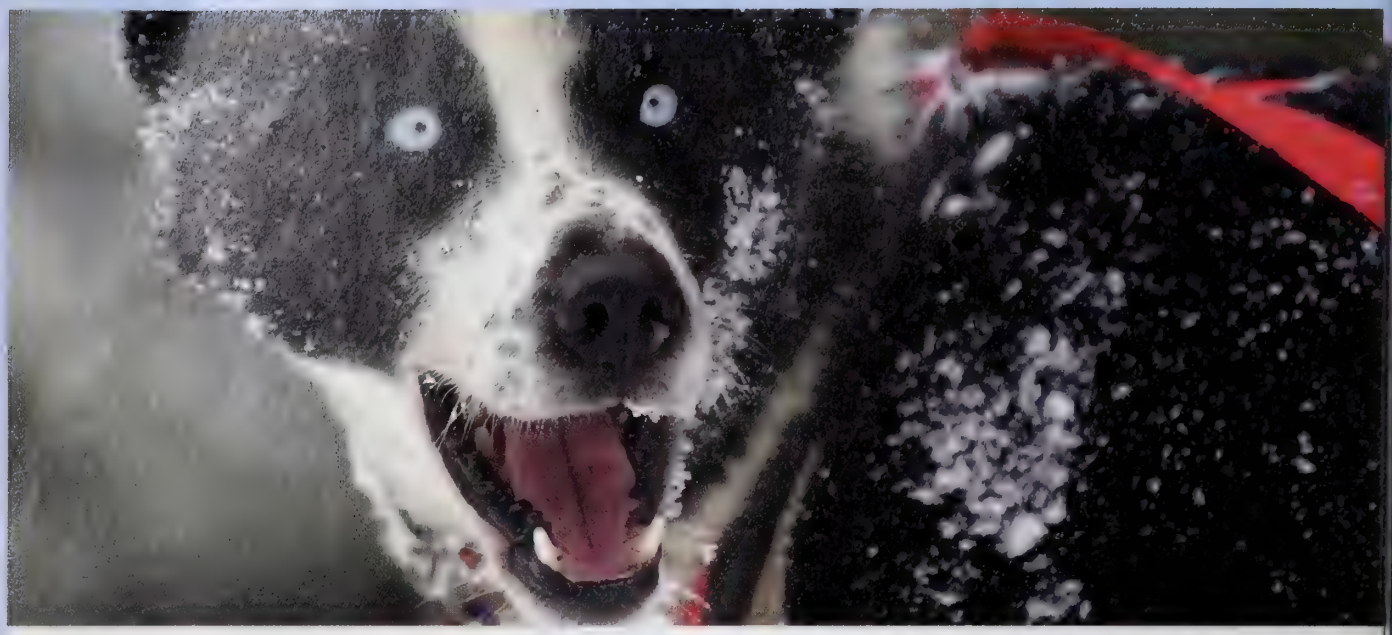

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Strategic Partnership Gives Radiation Therapy Services the Advantage

Radiation Therapy Services, Inc., provides treatment to cancer patients at fifty-two 21st Century Oncology centers located in eight states. On June 18, 2004, Radiation Therapy Services (NASDAQ:RTSX) offered 5.5 million shares of its common stock priced at $13 per share, with Wachovia Securities serving as the Joint Book-Running Manager. Dr. Daniel E. Dosoretz, President, CEO and Director of Radiation Therapy Services, talked with us about the recent IPO.

Dr. Daniel E. Dosoretz
President, CEO and Director
Radiation Therapy Services

Why did you decide to go public at this time?

Over the years, we've thought about going public a number of times. I don't need to tell you how fast technology is changing in the medical field. We wanted to ensure that sufficient capital would be available to fund the latest technology and upgrades. It would also give us better opportunities to recruit and retain management and key executives.

"When we work with Wachovia ... we aren't on opposite sides of the table. We are side by side, working as a team, each loyal to the other."

Why did you choose Wachovia as your lead underwriter?

Bankers show up at your door when an IPO is under consideration. For us it was an easy decision. Wachovia saw us grow, helped us with financing and has been bringing us fresh ideas for more than 10 years. That personal commitment, combined with their expertise in IPOs and strong interest in health care, put them at the top of our list. And when you look at how well the offering was received, there's no question about our choice.

What has the relationship with Wachovia meant to you and your business?

When we work with Wachovia, it's a very collaborative relationship. We aren't on opposite sides of the table. We are side by side, working as a team, each loyal to the other. They are our consistent credit source and our investment bankers. They also handle our cash management, custody and safekeeping. Several of our management teammates rely on Wachovia Wealth Management for personal investment advice and money-management services. I can sum up our relationship with Wachovia in four words: ideas, expertise, enthusiasm and commitment. They know what to do, and they know how to do it.

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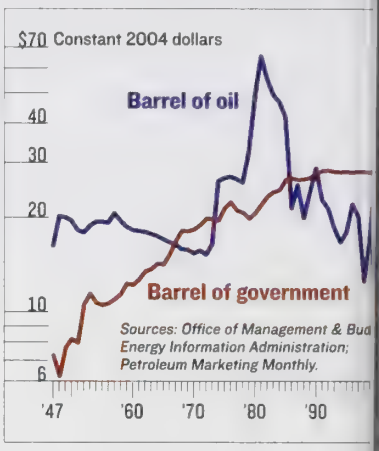
Side Lines

What Are You Worried About?

Oil was getting so hard to find that, soon enough, looking for it would be a losing game, at least in the U.S. So said the experts, years ago.

The experts were wrong. Once again they had us worrying about the wrong things.

Writing in the Feb. 6, 1981 *Science*, two scientists at Cornell predicted that the point would be reached when finding and extracting one barrel of oil (or gas equivalent) would burn up more than one barrel. That fateful day was supposed to arrive by 2004. At that point no price increase would save us. If anything, ran their argument, higher oil prices would just make matters worse by causing oil companies to fritter away precious energy on dry holes.



Here we are 23 years later, but the wildcatters aren't out of business. Baker Hughes counts 1,234 rigs drilling in the U.S.

Where did the smart people go wrong? They failed to see how dire predictions about energy prices have a way of becoming self-unfulfilling prophecies. The prospect of higher prices magically unleashes a flood of clever new ways to find oil and get it out of the ground. In the article on page 90, Christopher Helman tells how $45 oil is motivating ChevronTexaco's derring-do on the ocean floor.

A significant fact, not mentioned by the scientists, is that a new President was inaugurated a few weeks before their paper was published. One of Ronald Reagan's greatest accomplishments was decontrolling the price of energy. Without decontrol, there would have been no unleashing of imagination in the hunt for energy. With it, there was no need for Jimmy Carter's synfuels program.

Don't fret about the price of oil. Mentally smooth out the price spikes and collapses, and you can see in the chart that it has been on a gentle upward curve. Not so the other cost displayed. Here I define a barrel of government as one day's per capita outlays, federal, state and local combined. Government is worthy of your attention because we consume so much of it: nine times as much as we consume of oil and gas. The upward trajectory of its price is a lot steeper.

George Bush should be proposing to abolish the Department of Energy. Instead, he wants to enlarge it with hydrogen subsidies. That's worth worrying about.

William Baldwin
EDITOR

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Wyeth

High-performance R&D, delivered.

Determined to boost its output of innovative new medicines, Wyeth's research & development leadership teamed with Accenture to reengineer the way the pharmaceutical company discovers new molecular entities and moves them through preclinical development and clinical trials. The companies designed and implemented vast changes to streamline operations and dramatically improve the effectiveness of Wyeth's proven R&D organization. Now, three years into the initiative, the productivity of Wyeth's drug discovery effort has risen 400 percent, early clinical trial cycle times have been cut by 60 percent, and a new high-performance model for outsourcing clinical data management is substantially reducing costs by about 50 percent.

Thomas Cook

High-performance operations, delivered.

A 163-year-old brand with many owners over the years, Thomas Cook UK & Ireland was a respected but complex, decentralized travel services business in need of a return to profitability. In an innovative co-sourcing arrangement with Accenture, the company created a shared services center to consolidate its widely dispersed IT, finance and HR administration operations. Responsibility for strategy and policy was retained by Thomas Cook, with Accenture facilitating operations management. In 16 months, the company removed £140 million in operational costs, helping to achieve an £83 million turnaround, establishing Thomas Cook as a high-performance player in the competitive UK travel business.

Every great accomplishment
is at first impossible.

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Readers Say

Making Cents

I am a shareholder in many small companies who has benefited tremendously from the class action process, notwithstanding abuses of the system described in "Dirty Money" (*Sept. 20, p. 150*). Despite Sarbanes-Oxley, managers of small companies continue to commit securities fraud, sell company assets to themselves below market prices, issue themselves below-market options and take companies private at ridiculous valuations. The class action process allows small shareholders to fight for their rights, aggregate their claims and be heard.

TONY CHIARENZA
President, Key Equity Investors
New York, N.Y.

Kudos are due to FORBES for exposing yet another means by which attorneys abuse the public trust. As a portfolio manager I've argued with my clients for years against the "class action racket." You're right on the money by saying that shareholders get merely pennies for every dollar awarded by the courts.

SCOTT ALIXANDER SONDERS
Sherman Oaks, Calif.

Un-Fun Mandates

In "Fact and Comment" (*Sept. 20, p. 33*) your numbers on health insurance premiums in New Jersey and Oklahoma are reasonably accurate, but the key to bringing these costs down is not as simple as taking out mandates. Mandates absolutely impact rates, and the New Jersey legislature is one of the most aggressive in passing mandates without getting all the facts. The most recent example is their mandate to cover *in vitro* fertilization, which so far has driven health insurance premiums up by 2.5% to 3.4%. When babies began to be born and there were more abnormal births than prior to this legislation, that delivered an overall 3% to 5% cost impact, which the legislature probably never considered.

ARNOLD M. KATZ
President, Brokerage Concepts
King of Prussia, Pa.

Pay Now, Play Later

"The $1 Billion Team" (*Sept. 20, p. 134*) reminds me of why public funds shouldn't be used for new sports stadiums. In ancient Rome governmen attempted to curry favor with th masses by offering bread and circuses Today we have sports pork. Betwee naming rights, season skyboxes, broad casting revenues and concession sales it's hard to believe owners can't fun these projects themselves. Let tean owners float their own bonds or issu stock to finance these new stadiums!

LARRY PENNE
Great Neck, N.Y

Identity Crisis

A photo accompanying "When th Chips Are Down" (*Oct. 4, p. 54*) wa misidentified. The photo was not that Eric Kim, Samsung's former marketin chief, but Jong-Yong Yun, Samsung chief executive.

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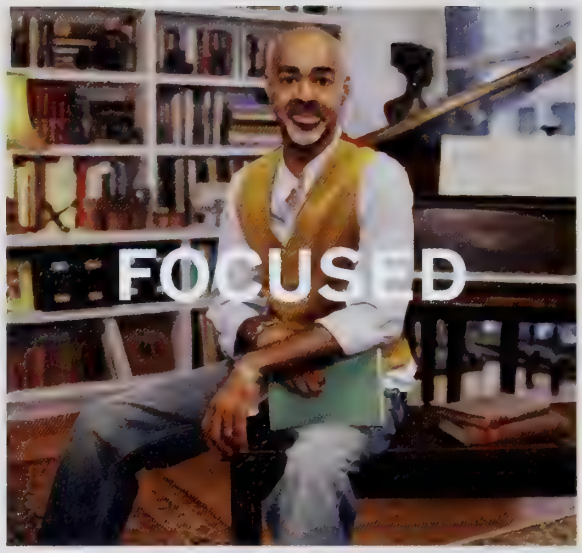

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Fact and Comment

By Steve Forbes, EDITOR-IN-CHIEF

"With all thy getting get understanding"

America: Indispensable for Fighting Evil

THE NOW WELL-PUBLICIZED HORROR OF WHAT'S HAPPENING IN the Sudanese province of Darfur has still not prompted any effective response. Sudan's Arab-dominated government is committing genocide in this mostly black-populated region. Countless numbers of people have been killed. Well over 1.2 million have been forced from their homes. More than 1,000 people a day are dying, and hundreds of thousands face famine.

Khartoum has been using local militias and its national air force to "cleanse" this restive region. Even UN bureaucrats acknowledge that this is today the world's most horrendous human disaster. Secretary of State Colin Powell visited Sudan in June to put pressure on the government to halt its murderous campaign. But the violence has continued unabated. Troublemaking Syria, not content with helping foment insurrection in Iraq, has supplied Khartoum with chemical weapons and purportedly has helped the government use them in Darfur. The atrocities in Darfur are nothing new for this Sudanese regime, which has already killed nearly 2 million southern animist and Christian blacks in a long-running, nasty civil war.

The Sudanese government scorched-earthed this and other Darfur villages.

It's no surprise that France and China are dawdling, loath as they are to jeopardize lucrative oil contracts. As usual, the UN is impotent. After all, Sudan is a member in good standing of the UN Human Rights Commission. A few months back, in fact, Sudan was reelected to the commission. (Hitler and Stalin would have loved that.)

The international community's impotence makes a mockery of John Kerry's fantasy that we can happily deal with the world's woes multinationally. As Bosnia and Kosovo have demonstrated, no real good happens unless the U.S. takes a firm lead. Our State Department will make appropriate noises, but the U.S. will, in essence, do nothing until after the November elections. Then we may push for the creation of a mostly African international peacekeeping force (we'll end up footing most of the bill) to try to stem the mass murder. We might also embargo Sudan's oil, thereby depriving this barbarous regime of its only source of hard currency. If we don't act soon after the President's reelection, upwards of 1 million people in that benighted area will perish.

No Coincidence

When President Bush moves up in the polls, so does the stock market. And vice versa.

Our Founders Got It Right

OUR UTTERLY UNDERAPPRECIATED ELECTORAL COLLEGE IS under attack. Attempts to abolish it outright faltered after the 2000 elections, but corrosive mini-attacks are gaining momentum. Democrats in Colorado have put an initiative on the ballot that would award the state's electoral votes in proportion to the popular vote. Thus, if President Bush takes the state, as is likely, he won't get all of its nine electoral votes. John Kerry could pick up three or four. If the vote is as close as it was in 2000, this initiative could swing the national election to the Democrats.

Maine and Nebraska already have provisions that award electoral votes based on who wins each congressional district. (And each state's at-large vote-winner receives two additional electoral votes, corresponding to the state's two U.S. senators.) In this instance, Kerry could win Maine, but if he lost in one of the state's congressional districts, Bush would get that electoral vote. Then there's the prospect of renegade electors. One Republican elector in West Virginia has already gone public and said that even if President Bush wins the state he might not cast his ballot for Bush because he disagrees with White House fiscal policies and the war in Iraq.

The growing lack of uniformity in rules threatens the integrity of the system.

The Electoral College has fundamental virtues. It forces serious candidates to wage national campaigns. You have to win a majority of electoral votes to capture the White House. Thus, regional or single-issue candidates have no hope of achieving victory. We are a diverse country in our interests and in our attitudes toward numerous issues. Presidential aspirants must work to create nationwide coalitions of supporters if they are to triumph. Thus, the College usually tamps down divisions rather than inflames them.

With rare exceptions this seemingly antique institution decisively resolves contests in which the popular vote is close or in which there are several serious candidates. In both the 1960 and 1968 presidential elections, the popular votes were squeakers, yet the College unambiguously decided the outcomes. In elections

in which candidates receive well under 50% of the vote, the College can still give the winner an unmistakable mandate. Abraham Lincoln was elected with barely 40% of the popular vote in 1860, but he won the Electoral College by a landslide. There was no question as to who should take the oath of office (except in those states that were ready to secede from the Union). Woodrow Wilson won only 42% of the popular vote in 1912; and Bill Clinton, 43% in 1992. Yet in both cases, the two men decisively won in the College. The 2000 election was an unhappy exception—both the College and the popular vote were virtual ties.

Abolishing the College would only fracture and further factionalize our national politics. Critics complain that because of the College candidates today focus on 12 to 18 "battleground" states and ignore the rest of the country. But a popular-vote-only election would have candidates bypassing all but a handful of large states.

Is the answer to take Colorado's proposition national? That would also fractionalize our politics. Protest candidates could win a handful of electoral votes and offer up their support for auction if no candidate received a majority. Had we had the Colorado scheme nationally in 2000, neither Al Gore nor George Bush would likely have won the necessary 270 votes. Talk about tyranny of the minorities.

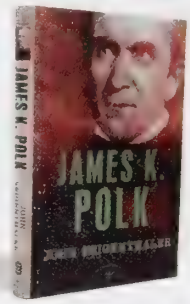
If necessary, Congress should vote to invalidate Colorado-like amendments and compel states to stick with tradition—that the winner takes all the electoral votes in each state he wins. It should also be unlawful for electors to not vote for the candidate they are pledged to support. Renegade electors are tolerable when they don't matter, but in a tight election they could completely corrupt the process by seeking publicity and effectively putting their votes up for bid.

Redstone's Reign Still Supreme

WILL VIACOM'S SPIN-OFF OF BLOCKBUSTER HURT VIACOM'S STOCK (*see p. 144*)? Anyone who heard Viacom CEO Sumner Redstone speak at our recent Global CEO Conference in Hong Kong would answer with a resounding "no." This hard-charging entrepreneur, who announced that he's voting Republican in November's election, struck one and all as a man who knows how to successfully pursue major growth opportunities—and shuck off businesses that are past their prime. Only the short-sighted would short Sumner.

No Millard Fillmore

James K. Polk—by John Seigenthaler (Times Books, $20). Pontificating pundits occasionally postulate that it doesn't really matter who wins the White House, that policies don't fundamentally change. This succinct biography of one of our most important presidents—one that most Americans have never heard of—pummels that proposition.



Polk was the original dark horse, his ascendancy to the top in 1844 a fluke. But conventions mattered in those days. When a deadlock developed, Polk, who in previous years had twice lost the governorship of Tennessee, as well as a bid for the vice-presidential nomination four years earlier, ended up with his party's crown and narrowly won the general election.

Polk took office with four ambitious goals and achieved them all: slashing taxes on imports; removing federal deposits from private banks (not surprisingly a source of corruption); acquiring what is now Oregon from Great Britain (a diplomatic coup); and obtaining California from Mexico. That last achievement, along with the annexation of Texas, led to war with Mexico, but victory brought us not only California but also the entire Southwest. Polk's policies gave us roughly one-third of the territory that constitutes the U.S. today. (Seigenthaler put paid to the notion that Polk started that war—Mexico attacked our troops in disputed territory.) Having achieved his goals, an overworked Polk did not seek reelection and died soon after leaving the White House.

Alas for his popular reputation, Polk was a prig—a humorless, self-righteous, intensely partisan, oft small-minded workaholic. But there's no denying his effectiveness.

Sadly, Seigenthaler sprinkles his book with petty, contemporary political potshots. He preposterously posits, for example, that "whatever [future President] Buchanan's sexual preferences, times were no more sympathetic to homosexuality in the mid-19th century than in today's world of homophobia." Gays today enjoy infinitely more rights and tolerance than they did then.

RESTAURANTS: GO, CONSIDER, STOP

Edible enlightenment from our eatery expert Tom Jones and colleagues Patrick Cooke and Monie Begley, as well as brothers Bob, Kip and Tim.

● **The Neptune Room Restaurant & Bait Bar**—511 Amsterdam Ave., between 84th and 85th streets (Tel.: 212-496-4100). A small joy of a place offering some of the best fare around: great salads, as well as delectable skate, flounder, red snapper, monkfish and steak.

● **5 Ninth**—5 Ninth Ave., between Gansevoort and Little West 12th streets (Tel.: 212-929-9460). Good-looking brownstone with a beautifully designed interior—a bar and lovely garden make up the first floor. Service upstairs can be blisteringly condescending or simply inept, with long waits between courses. When the food finally arrives, it is disappointing. Go for drinks.

● **Bolo**—23 East 22nd St., between Broadway and Park Ave. South (Tel.: 212-228-2200). Spicy Spanish at its best. Raves for the grilled lamb salad with mint, pine nuts and red-hot-pepper vinaigrette. Leave room for the chocolate tart.

● **BLT Steak**—106 East 57th St. (Tel.: 212-752-7470). A first-class steak house. The meats are all expertly prepared, as are the classic accoutrements. Desserts, especially the carrot cake and the lemon meringue pie, are lip-smackingly delicious. F

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[ANOTHER REASON PSEG HAS WALL STREET'S ATTENTION]

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Marcel Banziger:

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Timing is everything in the fashion industry. What's in vogue one month is often out of style the next. Not surprisingly, fashion houses put tremendous pressure on suppliers to deliver the latest fabrics and textiles on time.

Perhaps nobody knows the demands of the fashion industry more than Marcel Banziger, the namesake and founder of New York-based Marcel Banziger, Inc., a textile supplier to high-end designers like Oscar de la Renta, Halston and Bill Blass.

"Our business is time-sensitive and customers can't wait until tomorrow," said Banziger. "Our customers need fabrics for things like high-end fashion shows. A garment or a sample must meet the deadline. It's critical not to lose an hour."

But Banziger realized he was losing valuable time in transit due to customs delays caused by brokerage errors and oversights. To make matters worse, the failure to comply with customs regulations could potentially lead to hefty fines — up to 40 percent of the value of the imported merchandise.

By enlisting the help of UPS®, Banziger discovered he could streamline shipping operations and eliminate importing risks through smart solutions that saved time, controlled costs and even helped improve customer service. Right away, UPS saved his company at least a day in transit by reducing multiple carriers to one. UPS's customs brokerage services also came into play, speeding along the customs process by preclearing U.S.-bound shipments and ensuring seamless same-day clearance. "With UPS, it's all in-house and the brokerage operations are much more qualified, responsive and can get quicker results," said Banziger.

UPS is also instrumental in helping Marcel Banziger stay on budget. Ever since UPS helped streamline his supply chain, there have been significant cost savings and increased efficiencies. Also, there are no surprises in cost because static charges are known up front, making it easier for the small, ten-person company to plan ahead and manage cash flow more efficiently.

"Our business is time-sensitive and customers can't wait until tomorrow."

Largely an importer of textile goods, Marcel Banziger depends on timely shipments from places such as Italy, France, Switzerland, South Korea and Japan. UPS Import Freight Collect consolidates the company's bills and converts them to U.S. dollars, eliminating painstaking and costly currency conversions. To simplify things even further, Marcel Banziger uses one account number for all its import business.

"We're in the fast-paced fashion business with a continually changing product," said Banziger. "We have idea, color, and texture-driven products and our reputation for reliability in the market is good — absolutely good."

Marcel Banziger may be a small outfit, but by saving time and money it has managed to make a large impact in an industry where businesses come and go as quickly as last season's hemlines.

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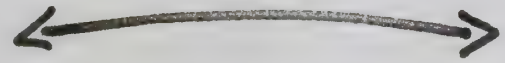
A. BEFORE BROWN



B. AFTER BROWN

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Other Comments

For the highest task of intelligence is to grasp and recognize genuine opportunity, possibility.
—JOHN DEWEY

Tinkering With the Margins France and Germany are beset by deep structural problems, including rigid labor markets, restrictive regulations, hurtful environment and safety standards, high taxes and large unfunded pension liabilities. But neither Germany's Schröder nor France's Chirac exhibit the leadership qualities necessary to pull their countries out of economic malaise. The two built their careers on populism. They do not possess the reformist zeal exhibited by Margaret Thatcher in Great Britain in the 1980s. They are thus relegated to tinkering with the margins of their welfare states. The longer those trivial changes continue, the further will the European states fall behind the United States.
—MARIAN L. TUPY, Cato Institute, *TechCentralStation.com*

Wrongheaded Reform Murmurs of dissatisfaction with the Electoral College are being heard again. Direct election of the chief executive by popular vote does not have a reassuring history. In France, Italy and Germany in the past two centuries, it has produced authoritarian rule for long periods. It could fragment the two parties, whose principal job is to make sure the political game doesn't get out of control. The nation could have four or a score of parties, all driven by ideologies, some of them extreme. They would compete for votes in major TV markets, and the small states would be ignored even more than they are now.

And how would the winner be determined? Whoever gets the most votes? That encourages candidates by the busload. And it staggers the imagination to think 22% would make someone President. A presidential runoff likely would be demanded. But that's no solution; candidates dreaming of a second-place finish would stay in the race and the same busload still would appear in the first round, with each prepared to make unsavory deals in exchange for extending—and accepting—support in the second round. Our politics would resemble that of France, with the complication that the House of Representatives frequently would be called on to decide the contest. There each state would have one vote—which ought to give pause to those who think the current system is "unfair."
—*Boston Herald*

"Your appointment with the doctor is at eleven-fifteen, but his appointment with you is at twelve-fifteen."

See No Evil After the genocide in Rwanda a decade ago, the world's moralists said "never again." Well, it is happening again, this time in Sudan, but once more the UN, the Arab world and Europe are failing to speak up, much less to act. The Bush Administration has been isolated in its attempts to raise international pressure on Khartoum. The UN Commission on Human Rights has refused to condemn the Sudanese regime. Sudan is protected at the morally alert Security Council by China, which supplies the regime with arms and has oil interests there. Fellow Muslim nations Pakistan and Algeria are also loudly silent. Even the Europeans display little interest, arguing that "politicizing" Darfur could threaten a peace deal to end a separate conflict between the regime and rebels in the south.

Whether the issue is Iran, Syria, Iraq or now Sudan, Europe always favors the softer approach, preaching "constructive dialogue" while the killing continues. The Khartoum regime knows that an America already tied down by two wars cannot intervene militarily in Darfur. So it kills with impunity as the rest of the world turns away, saving its outrage for the abuses by a few Americans at Abu Ghraib.
—*Wall Street Journal*

A Debt to Be Paid We owe respect to the living; to the dead we owe only truth.
—VOLTAIRE

A Sharp Mind, Sharp Tongue Historians have criticized [President] Polk's lack of creativity, his gray imagination, his intellectual rigidity, his inability to think outside the box. Yet he had a keen, logical, absorbent mind. His formal education provided him with the capacity to digest facts and apply them to academic problems—and, later in life, to legal and political ones. He strove to become eloquent, and he exhorted his classmates in one of his declamations to develop "that fluency of language, that connexion of ideas and boldness of delivery" that would serve them "in the council, in the pulpit and at the bar."
—JOHN SEIGENTHALER, *James K. Polk*

Imagine the Possibilities Imagination grows by exercise and, contrary to common belief, is more powerful in the mature than in the young.
—W. SOMERSET MAUGHAM

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Current Events

By Lee Kuan Yew, MINISTER MENTOR OF SINGAPORE

Terrorism Escalates Worldwide

THIS YEAR'S U.S. PRESIDENTIAL ELECTION HAS SPECIAL SIGNIFICANCE for East Asia. A Pacific Ocean diminished in size by technology has linked East Asia's economic future with America's. Any slowdown in the U.S. spells problems for Asia. Although intra-East Asian trade has grown by double digits yearly since the 1990s, the end destination for about 25% of the region's manufactured products is still the U.S. Asia needs a U.S. Administration that supports free trade and is able to restrain domestic pressures to protect American jobs by restricting outsourcing.

Of even greater concern to Asia, however, is the Islamist terror threat. Because globalization has brought about a planetwide focus, suicide bombers now target Americans and America's friends in Asia. In Iraq, besides Americans and Britons, terrorists have taken Italians, Egyptians, Turks, Nepalese, Indians, Pakistanis and many others hostage. When the Italian government refused to withdraw its troops from Iraq, terrorists killed the Italian journalist they were holding. They had expected the Italian government to yield in the same way that the Philippines had in order to save its countryman. Terrorists in Iraq have also beheaded one Nepali, two Bulgarians, one South Korean and three Americans, besides killing many others. Terrorists now have taken two Italian women aid workers. The "Islamic Army in Iraq" went beyond demanding the withdrawal of foreign forces; it threatened to kill two French journalists if France didn't rescind its ban on the wearing of head scarves by Muslim girls attending French state schools.

Some believe that if the U.S. had not attacked Iraq, the terrorists would not have become so numerous and so barbaric. Escalating terrorist outrages both inside and outside Iraq show a dynamic independent of what's going on there. Every new horror is quickly copied, including coordinated suicide bombings, hostage-takings and intimidation through the posting of videos of beheadings on the Internet. Disparate terrorist groups outdo one another in extremes of savagery. They are eager to die and take with them as many victims as possible. Islamists consider an attack on Muslims anywhere as a crime against all Muslims. Their Web sites tabulate massacres of Muslims in Chechnya, Bosnia, Kosovo, Kashmir, Mindanao, Ambon, Poso and Palestine, citing all as atrocities against the Muslim *ummah* (community).

To influence Indonesia's presidential elections on Sept. 20 and Australia's elections on Oct. 9, Islamic jihadists exploded a huge car bomb on Sept. 9 at the Australian Embassy in Jakarta, killing 9 and injuring 182. To their credit, Indonesians and Australians have not allowed this attack to influence their elections.

Al Qaeda has supported disparate Muslim insurgencies all over the world, providing funds, training and expertise in the art of mass killing. Chechen terrorists have bombed a subway station in Moscow, blown up two Russian planes using suicide bombers and, in concert with other terrorists, taken more than 1,000 Russian parents, children and teachers hostage in a school in Beslan. They killed more than 330 in cold blood at that school—more than half of them, children. Extensive preparations and perfect coordination, as well as the use of suicide bombers, heavy surveillance and possible rehearsals were the hallmarks of al Qaeda's 9/11 attacks, as noted in the U.S. 9/11 Commission Report. The Beslan terrorists had studied the 2002 Moscow theater siege, avoiding mistakes made there. Windows at the school were shattered to prevent debilitating gases from overwhelming the terrorists. Children were targeted—to shock and to gain greater publicity. Employing such methods, these savages may yet succeed in alienating the rational Muslim majority.

The roots of conflicts may be local, but the methods terrorists use to exploit them are global. Many of the diverse Islamic terrorist groups fought and bonded together in Afghanistan, where they forged blood ties and joined in a higher cause—to make America bleed and ultimately expel it and any other Western powers from their lands.

The World Needs a Resolute America

Al Qaeda tells the world that America's support of Israel's ruthless suppression of Palestinians is justification for its reprisals. Indeed, the horrors in Palestine have fanned Muslim passions and made recruiting new terrorists easier. Any abatement in Israeli-Palestinian tensions would reduce the terrorists' recruiting prospects. But regardless of the outcome of the Palestinian issue, Islamist terrorists will not abandon their ultimate goal: driving the U.S. and other Western powers out of the Middle East so they can gain control of the region's oil and create a worldwide caliphate, one that extends from North Africa across Saudi Arabia, Central and Southeast Asia and, later, across all continents.

Americans rightly worry about their diminished standing because of the Abu Ghraib prison atrocities. However, America cannot allow its moral anguish to be perceived as weakness. Islamist terrorists are waging an allout war against *all* who stand in their way. They want their enemies to lash out at all Muslims, so Muslim resentment will grow stronger. The world needs a steadfast America, one that is resolute in its belief that Islamist terrorists are dead wrong in thinking they can terrorize the world into submission. F

Forbes.com

Lee Kuan Yew, minister mentor of Singapore; **Paul Johnson**, eminent British historian and author; **Ernesto Zedillo**, director, Yale Center for the Study of Globalization, former president of Mexico; and Forbes Chairman **Caspar W. Weinberger**, rotate in writing this column. To see past Current Events columns, visit our Web site at **www.forbes.com/currentevents**.

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Digital Rules

By Rich Karlgaard, PUBLISHER

More Cheap Thoughts

ANYBODY AWAKE KNOWS MOORE'S LAW—OR SHOULD. AT A CONstant price point, computer chips get twice as good every 18 to 24 months. That's not exactly what Gordon Moore wrote in 1965 when he laid down his law. Physicists don't use words like "good." No, Moore was thinking about transistor densities on silicon chips. But during the 1980s, thanks to the amazing rise of the personal computer, Moore's Law took on a larger meaning. It became the symbol for exponential gains in technology. For example, I bought my first hard-disk drive in 1984. It stored 20 megabytes and cost $500. A few weeks ago I bought a disk drive that stores 2,000 times more data than my 1984 model did. Yet it costs only $399. Even better, Apple throws in the music player for free. It's my iPod, you see.

Moore's Law has a flip side. It goes like this: At a constant performance point, tech prices tend to drop 30% to 40% per year. Recall the Intel 486 chip? It was blazing fast in 1987. It sported a premium price to match—$750—and ran PCs costing $4,000 (about $7,000 in today's dollars). Where are those 486-class chips today? They're running BlackBerrys, Treos and the like and sell for $25.

The flip side of Moore's Law is the reason China will surpass the U.S. next year in Internet users. This is what happens when decent PCs and handhelds can be had for less than $500.

Talent Votes With Its Feet

Amid the piles of gushing words written about the Internet during the 1990s, I recall none about cheap tech's lifting poorer countries out of poverty. Now it's a fact, yet we're of two minds about this. We delight that so many lives are being improved, but we're not always thrilled with the sudden new competition. John Kerry cynically plays the offshoring card. It's cynical because, first, as a senator, Kerry was a free-trader and, second, how would he stop the Chinese or the Indians from selling their skills over the Internet? Ban the Internet? Cut all fiber-optic cables at the border? Rescind Moore's Law?

Offshoring does not threaten American prosperity. Here's a much more real threat. Since World War II, the U.S. has recruited an oversize share of the world's best brains. The Manhattan Project? It was successful in large part because Hitler drove Europe's top atomic physicists into our arms. Silicon Valley? It would be a lesser place if you erased names such as Jean Hoerni, Federico Faggin and Andy Grove. Grove crawled on his belly under Hungarian barbed wire to come to the U.S.

But now America's lock on the world's best talent has been picked. As a global citizen, I say that this is good—it's proof that cheap tech and democratic capitalism now touch more people. As an American, I'm not as comfortable making that argument. Not when U.S. immigration policy is misguidedly slanted toward unskilled workers and tipped against the talented. Not when regulatory overreaches, such as Sarbanes-Oxley, are driving startups offshore. You see, it isn't just the pull of opportunity away from our shores that is causing talented immigrants to head home or never leave in the first place. It's our bad visa policy that's giving them an active push. This will bite the U.S.

The first sign of financial peril for countries and companies is an outflow of talent. Remember Britain's "brain drain" in the 1960s? Prime Minister Harold Wilson chased out the country's actors, doctors, scientists and engineers with tax rates that peaked at 98%, and Britain nearly collapsed in the 1970s. A talent exodus in the early 1990s foreshadowed Silicon Graphics' decline later in the decade.

A tech investor I know has averaged 25% returns over a 20-year period. His secret? He attends trade shows and conferences during the year. Of course he wants to learn about new products, but he also goes to hear industry gossip on talent flow—e.g., why did the founder leave; what's the scuttlebutt on the new sales VP?

Here's a central truth of our time: Talent and capital flash around the world at the speed of light in search of opportunity. Barriers are easy to surmount, bureaucrats easy to foil, and friction is becoming fiction on the Internet.

Brand for Under a Grand

NOT ALL CHEAP TALENT IS FOREIGN. SOME IS AMERICAN—AND very young. A couple of years ago I wrote about a gang of Web designers whose average age was 22 and who were led by a high school junior. Here's another group: Logoworks.com. Check 'em out. Anyone wanting a custom logo fills in a creative brief online. You can then pick from three price points: $265 (4 designers, 4 to 8 concepts, 2 revisions); $385 (3 designers, 6 to 8 concepts, unlimited revisions); $549 (5 designers, 10 to 12 concepts, unlimited revisions). The deal is that you get many concepts from a variety of designers with completely different ideas.

It works like this: The "job" is posted to a private area of the company's site. Up to 200 designers will sign up for the job, first come first served. A few days later you start looking at concepts. You can also order cards and stationery.

Designers love it for the following reasons: They never have to meet with the clients; payment is immediate; they can work at home, day or night, with total flexibility; they can make $100 per design. That may be peanuts to a Madison Avenue pro, but not to a youngster making his or her mark. Logoworks has 10,000 customers and has been profitable since 2002. F

Forbes.com | Visit Rich Karlgaard's home page at **www.life2where.com** or e-mail him at **publisher@forbes.com**.

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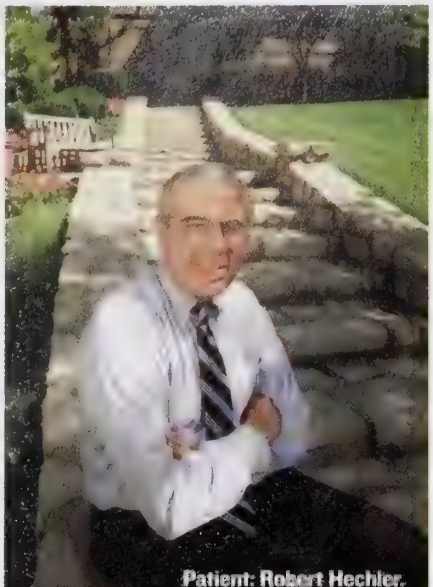
Delay? Why Would I Do That?


Patient: Robert Hechler.

In September 2003 Waddell & Reed Financial boss Keith A. Tucker and retired president Robert L. Hechler sued anonymously to stop accountancy KPMG from fingering them to the Internal Revenue Service as users of a questionable tax shelter. The pair lost, but the case stalled disclosure of their names until April. Hechler says in a new lawsuit that the IRS missed the Apr. 15, 2004 deadline for challenging his 2000 tax return within three years of filing and that the federal judge who said the executives were "trying to run out the clock" wrongly extended the deadline. In lawsuits disputing a combined total of $30 million of taxes and penalties, the duo defends their tax ploy as entirely proper. —*Janet Novack*

So Why Isn't He No. 1?

Warren E. Buffett, runner-up to Bill Gates on the new Forbes 400 list with a net worth of $41 billion (up $5 billion from last year), possesses a public image of a modest fellow uninterested in tooting his own horn. But for that task he has lawyers. As part of long-running litigation over tax treatment of interest payments and dividends, his Berkshire Hathaway just sued in its hometown Omaha federal court seeking another year's worth of federal tax refunds. Its pleading quotes from Buffett's famous commentaries in annual reports and—although the legal relevance is unclear—declares that Berkshire "capitalizes" on Buffett's "well-known and unparalleled investment talents." —*J.N. and William P. Barrett*

You Get What You Pay For

Last year, under an IRS-run program, volunteers around the country prepared 850,000 federal tax returns for low-income folks. The returns claimed a total of $1 billion in Earned Income Tax Credit and other refunds. This year the U.S Treasury Department's inspector general for tax administration assigned undercover agents posing as the poor to have 35 returns prepared by the volunteers. The finding: Not a single return was done correctly. Chagrined IRS officials now say that the agency will provide more training of the volunteers before the next filing season. —*J.N*

What, Insurance Agents Aren't Credible?

Residents of San Diego with life insurance have coverage equal to 5.4 times their annual income, tops among the country's 25 largest metropolitan areas, says a study commissioned by Allstate and conducted by LIMRA International. Lowest multiple: Pittsburgh (3.0). The study looked at individual whole life and term policies as well as coverage provided by employers. However, not a single region came near the insurance industry's rule-of-thumb that people generally should be insured for seven times annual income. —*W.P.B*

Like Her Lovely Country Estate in Danbury

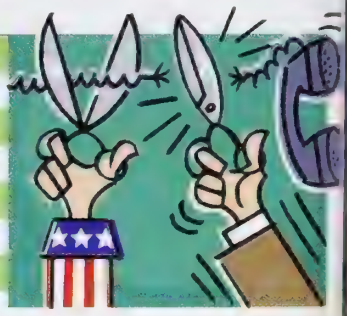
While jailed for five months for her federal lying-to-investigators conviction, ex-Forbes 400 member Martha Stewart won't get her $900,000-a-year salary from Martha Stewart Living Omnimedia but will receive benefits and be called chief editorial and media director. A new five-year employment contract quietly filed with regulators says her salary, plus minimum $595,000 bonus and expense account, will resume during her five months of house confinement. The agreement says paperwork is to be sent to Stewart "at her residence address most recently filed with the company." —*Carrie Coolidge and W.P.B.*

Leaving the Feds Eating Dust

Amid much ballyhoo, the Federal Trade Commission just made its first move, a civil lawsuit against a Las Vegas marketing firm, alleging violation of the new federal "do-not-call" telemarketing law. Such actions are old news to state regulators. —*Tatiana Serafin*

STATE	TARGET	TRYING TO SELL	PAYMENT
California	Trendwest Resorts	time-share units	$2.5 million[1]
Florida	M.E. Best Investment Services	financial products	$109,500
Missouri	AT&T and MCI	telephone service	$50,000
North Carolina	Warrior Custom Golf	golf equipment, packages	$10,000
Ohio	Shelterguard	home security alarms	$65,600
Pennsylvania	GutterGuard	gutters	$10,500
Texas	On Wheels Computer Repair	repair work	$13,000

[1]Including allegations of other questionable marketing methods.



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By Roger Bate, DIRECTOR OF AFRICA FIGHTING MALARIA, A HEALTH ADVOCACY GROUP IN SOUTH AFRICA

Angels Needed in America

Drug companies that do AIDS research should get patent extensions on other drugs.

OF THE 42 MILLION PEOPLE WITH HIV WORLDWIDE, ONLY 1 million are receiving drug treatment. At the same time, worldwide infection rates are rising; 14,000 people are newly infected with the virus each day. There is an urgent need to develop more powerful and more affordable drugs to treat the disease, and to continue to work on a cure.

Yet many drug companies, especially the smaller ones that made many of the past breakthroughs, are leaving the field. In 1997 there were 83 companies working on AIDS research. In 2003 the number had dropped to 60. Over the same period the number of compounds under development fell from 128 to 83.

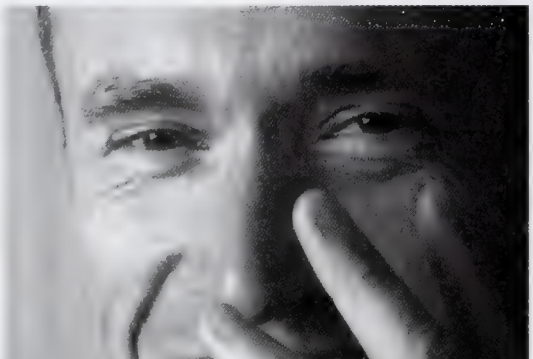
You can hardly blame the drug companies for running. AIDS drugs yield low returns when compared with drugs for cancer, hypertension, heart disease or even erectile dysfunction. Among people who have money and insurance, millions more suffer from those ailments than from AIDS.

Moreover, as populists push to lower AIDS drug prices and restrict patents around the world, drugmakers can expect profits from HIV medications to fall even further. Says one industry executive: "We have lost the battle with the activists, and now the market is less profitable. The result is that we are spending less R&D time on antiretrovirals. Why bother to innovate these products when any advance will not be profitable?" Yes, some important large players like Merck and Pfizer remain. But if you were a venture capitalist, you would have little incentive to invest in HIV research.

So what to do?

An unconventional answer: a combination of patent extensions and guaranteed markets. Here's how patent extensions would work: If a company were to develop a new HIV drug, it would give up the patent voluntarily in the developing world, or perhaps worldwide. As a quid pro quo, the government would grant it an extension on the patent of any drug of its choice in the U.S. for a set period of time. For instance, Pfizer could choose to lengthen its patent on Viagra. A two-year patent extension on a blockbuster drug like this could earn Pfizer enough to make it profitable to spend scarce R&D time on developing a new HIV medication.

While this is an elegant solution to the HIV drug development problem, it's doubtful that it will fly in an election year, when high U.S. drug prices, made even higher by other kinds of patent extensions, are toward the top of the political agenda. But when the election dust settles, this solution should be considered in earnest.



"If researchers are to develop new drugs, it is essential that companies be able to utter 'profit' and 'AIDS' in the same sentence."

The other option is guaranteed markets. President Bush's $15 billion Emergency Plan for AIDS Relief, announced in January 2003, calls for spending a significant sum buying HIV drugs that will then be distributed in developing countries. The Administration should buy drugs only from pharmaceutical companies that are investing a certain amount in original research on new HIV medications. That would guarantee a market for their AIDS drugs and give an incentive to find new ones. Congress should pass legislation mandating that this guaranteed market extend for at least two decades, given the long time it takes to develop new drugs.

The Administration should pressure other countries to follow suit. It should demand, for instance, that the Geneva-based Global Fund to Fight AIDS, Tuberculosis & Malaria, which purchases drugs for poor countries and is 36%-funded by the U.S., buy HIV drugs only from companies engaged in original AIDS research.

Beyond those two ideas, we should, as others have suggested, cut taxes for companies working in the HIV field and lower the cost of testing new drugs. But with the virus rapidly developing resistance to existing drugs, it is vital that researchers discover new therapies. If researchers are to develop new drugs, it is essential that companies be able to utter "profit" and "AIDS" in the same sentence. If not, the sentence future AIDS patients will face is death.

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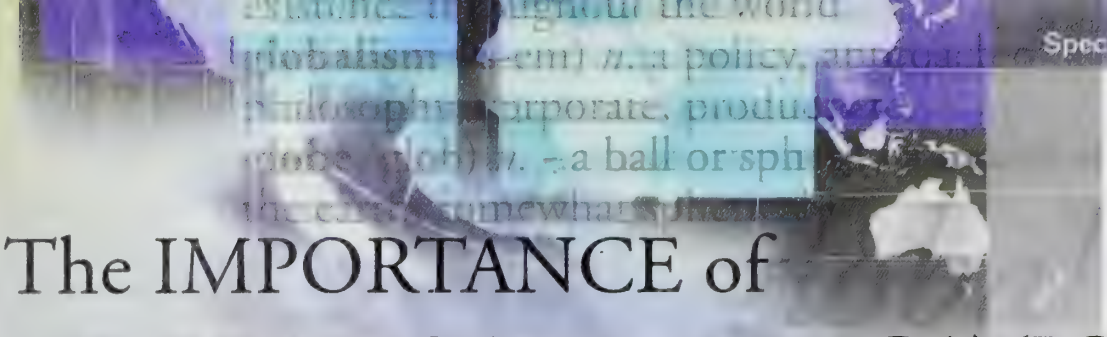

The IMPORTANCE of GLOBAL COMMUNICATION

Pitney Bowes elevates mail and document management to strategic advantag

We work in a world with more information, more knowledge, more contact across cultures, populations and countries, more competition and a greater need for intimacy with customers. Businesses need to cut costs, improve productivity, manage funds more securely and, most importantly, build customer loyalty. Reducing the risk of turnover for high-value customers has become mission-critical, and more organizations are turning to Pitney Bowes for answers.

"Pitney Bowes creates solutions that include a wide range of advanced mailing and document technologies, value-added business services, payment options and one-to-one marketing expertise," says Chairman and CEO Michael J. Critelli. "These help customers of all sizes worldwide enhance the efficiency and effectiveness of their communication with customers and other key stakeholders."

"Mail is your most critical link to customers, suppliers and partners — it is the channel that drives customer retention," says Murray D. Martin, executive vice president and group president of Global Mailstream Solutions. "In every part of the world, in every aspect of the mailstream, we are there to engineer the flow of communication."

Communicating Globally

A leading European manufacturer of high-quality packaging paperboard uses mail as its primary method of international customer correspondence. On an average day, the company sends out hundreds of first-class, second-class and overseas mail pieces. With so many international and local postal rates, the company relies on an intelligent mailing system from Pitney Bowes that updates itself whenever a rate change occurs. This technology allows the manufacturer to take advantage of a liberalized postal market.

Pitney Bowes provides the software, systems and services for Customer Communication Management that help companies gain efficiencies and capitalize on customer preferences.

Refining Customer Profiles. When developing a customer relationship, it's critical to communicate with the correct customer. "This is not possible if you have the same customer entered in numerous ways in various legacy systems," says Brian M. Baxendale, senior vice president and president of Enterprise Relationship Development. "In one system, my name might be entered as Bryan with a *y*, not an *i*. In another, my middle initial *M* might be used." Pitney Bowes software can quickly clean up these discrepancies.

Coordinating Communication. With Pitney Bowes systems, companies can cross-link various forms of communication with call centers and Web sites. "If a customer receives a bill and phones the call center about it, then the service agent will be looking at exactly the same document as the customer," says Baxendale. This optimizes the customer experience and heightens confidence in the company.

Customer Communication Management at Work

Pitney Bowes designed a system fo European student loan service organi tion in which all communication occu electronically and via hard copy — cre ing seamless interaction among 3 milli students, 170 local educational authorit and scores of colleges and universiti Furthermore, Pitney Bowes softwa allows the local educational authorities maintain individual brand identity in th mailings, even though they are part o mass-distribution network.

The Future Is Global Communication

The single biggest opportunity for a company is communicating more int gently with customers. "If organizatio can make every communication w harder and more intelligently, they hav better chance of truly connecting w customers and increasing understand of their needs, which should lead t greater degree of loyalty," says Critelli.

To learn how Pitney Bowes business solutions can help you cut costs and boost revenue, please call 866-DOC-FLOW or visit www.pb.com/executiveview.

Pitney Bowes

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Follow-Through

SEPTEMBER 1, 2003

Politics and Brain Waves

Is the presidential campaign turning you off? Grabbing your attention? Our cover story on the race by scientists to study the brain to chart brand loyalty suggested that this growing field could soon find surprising applications. It has, indeed. Neuroscientists at UCLA are using neural eavesdropping to study how this year's presidential candidates are stimulating blood flow and electrical activity in 12 different regions of the brain. An activity spike in the left prefrontal cortex, for instance, suggests the subject is attracted to an image or message.

Mind games: Subjects watch images while researchers monitor regions of the brain.

Some early findings: Both Democrats and Republicans paid far more attention to images of Ralph Nader than they did to Bush or Kerry. They also found that when shown images from Bush campaign commercials carrying pictures of Sept. 11, Democrats reacted differently from Republicans. Democrats showed higher jumps in neural activity within the amygdala, the part of the brain that responds to fear, suggesting they are more alarmed about terrorism and the use of force than are Republicans. Marketing consultants FKF Applied Research enlisted Marco Iacoboni, lab director at UCLA's Ahmanson Lovelace Brain Mapping Center, to lead the study. FKF may use findings to help shape future political campaigns.

—Dirk Smillie

APRIL 28, 2003

Performance Anxiety

We praised Bridgeway Funds, which offers several mutual funds with performance-based fees. But in September the Houston-based company announced it had been investigated by the SEC for calculating performance fees improperly and would have to repay $4.4 million in excess fees, along with $500,000 in interest and $250,000 in penalties. It turns out Bridgeway was tallying the fees based on current assets, while an SEC rule requires that performance fees be based on average assets over the performance period. There's no evidence Bridgeway was trying to fool its investors—the company has always fully disclosed its method of calculation—but founder John Montgomery sent investors a letter of apology and announced several hires and changes intended to prevent future problems.

—Ira Carnahan

OCTOBER 11, 2004

Forbes 401

When we were compiling this year's Forbes 400, we overlooked Richard Hayne, president of Philadelphia clothing retailer Urban Outfitters. His stock was worth $760 million the day we made our final tallies, just enough to clear our $750 million hurdle. His stake has since climbed to $820 million. *—Matthew Miller*

FLASHBACKS

75 YEARS AGO IN FORBES JUNE 15, 1929

Commissionitis

Shall this country indulge in more commission government or steer away from it? Our multifarious existing commissions have not earned entirely glorious records. The farther government is removed from the people and the more unlimited the powers conferred upon commissions accountable neither to President nor to people, the greater the danger of a breakdown in our system of government. "Less Government in business" shouldn't be a mere shibboleth but, in the interest of us all and in the interest of our children, should become a guiding principle honored by conscientious observance.

20 YEARS AGO IN FORBES APRIL 23, 1984

Upcoming Attraction

Never count out MGM/UA Entertainment Corp. as a target. The barrier is that 50.1% of the 49.7 million shares are owned by foxy Las Vegas financier Kirk Kerkorian. In December Kerkorian proposed a leveraged buyout of the minority at $17 a share. Highway robbery, cried Wall Street, and the offer was pulled back.

Kirk Kerkorian

In September an investment group led by Sony announced it would buy MGM for $4.9 billion.

15 YEARS AGO IN FORBES OCTOBER 30, 1989

Rouse No More

Rouse Co. made a name for itself in the 1970s developing showcase retail centers at Boston's Faneuil Hall and along Baltimore's waterfront. Today, however, Rouse's future is cloudy, and its shares, recently trading over-the-counter at around 29, look to be seriously overvalued. While some of Rouse's early developments are cash cows, later efforts, such as South Street Seaport in Manhattan, Riverwalk in New Orleans and Bayside in Miami, lost money. What's more, Rouse values its equity at $1.5 billion, but an analysis by FORBES suggests it may actually be worth only $1 billion. *General Growth Properties is acquiring Rouse for $12.6 billion.*

SOMEWHERE A MOLD IS BEING BROKEN.

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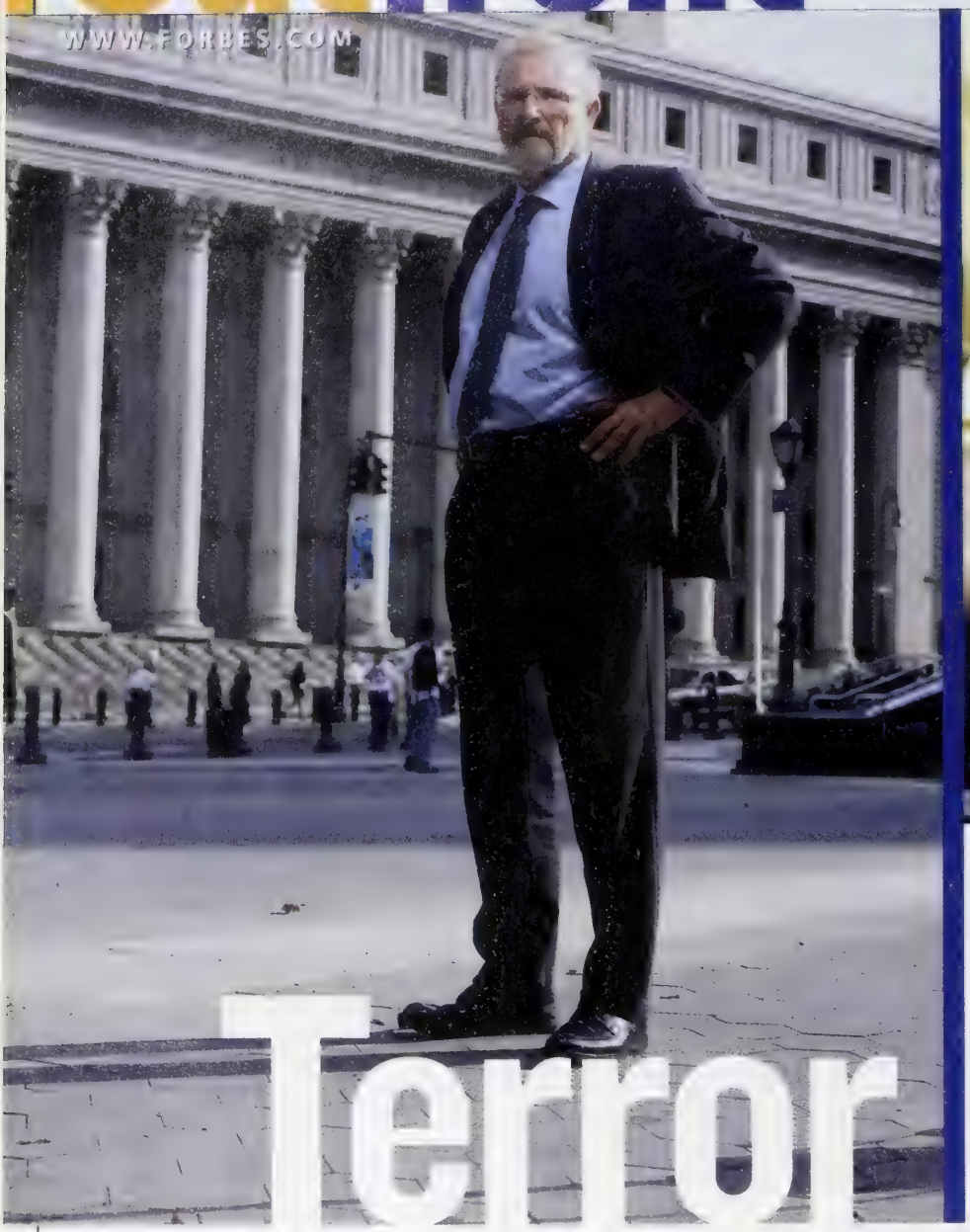


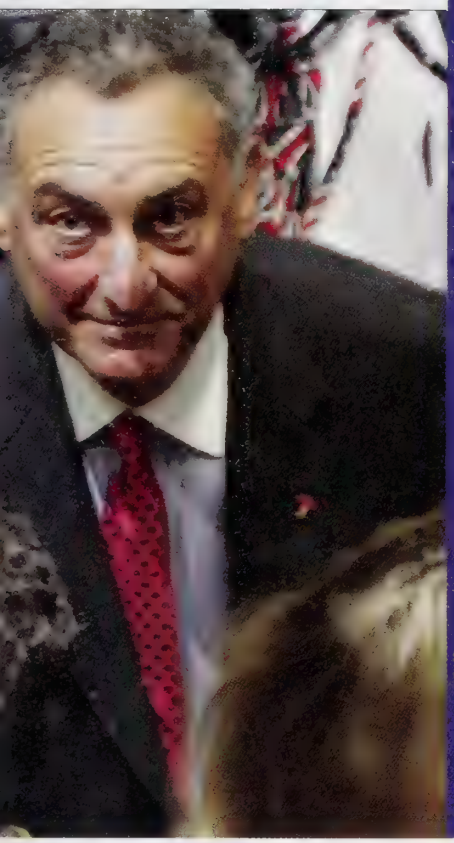
Terror Inc.

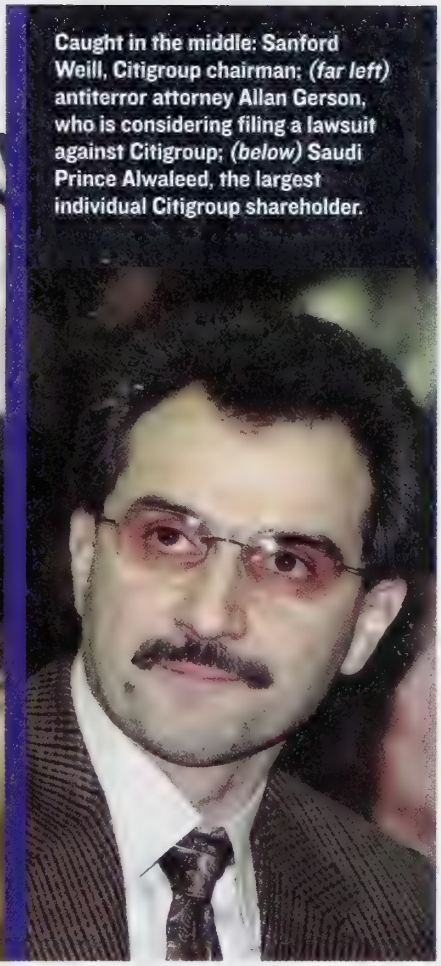
IN AMERICA'S WAR ON TERROR, cutting off the financial flow to the bad guys is a key goal. But it is a particularly elusive one. Even when a patriotic U.S. bank spots something suspicious, it may be hard-pressed to do much about it.

And so it is that Citigroup, the world's largest financial institution, finds itself confronting the fact that a bank it partly owned and managed in Saudi Arabia may have funneled thousands of dollars to terror groups and to the families of Palestinian suicide bombers—at the behest of the Saudi royal family.

The allegations involve Saudi American Bank, also known as Samba, the Riyadh-based affiliate in which Citi had a 20% stake. In late 2002 Samba was added as a defendant in a federal lawsuit filed by relatives of Sept. 11 victims against prominent Saudis and charities to which they appeared to be connected. The suit, prosecuted by Washington, D.C. lawyer Allan Gerson, among others, alleges that Samba "participated in the fundraising campaign in Saudi Arabia for collecting donations to the heroes" of the Palestinian uprising. Samba has filed a motion to dismiss.

Now Gerson is eyeing an additional suit against Citigroup and has lined up as possible plaintiffs 450 people who have





Caught in the middle: Sanford Weill, Citigroup chairman; *(far left)* antiterror attorney Allan Gerson, who is considering filing a lawsuit against Citigroup; *(below)* Saudi Prince Alwaleed, the largest individual Citigroup shareholder.

A tale of suicide bombers, Saudi princes, cash payments to terrorist groups—and how Citigroup got caught up in all of it.

By Robert Lenzner and Nathan Vardi

ost relatives or themselves been injured n terror attacks in Israel. Similar allegaions could end up being made against a ew other Western banks that own stakes n Saudi institutions, including HSBC of ondon, Crédit Agricole of France and BN-Amro of the Netherlands. A weak oint in the plaintiffs' case is that there nay be no evidence that any money went irectly from their Saudi affiliates to terorists. Yet another issue is that, given Saudi banking laws, any foreign bank could not have easily uncovered or thwarted such funding.

It appears that Citi didn't learn of the possible problem at Samba until that bank was named in the lawsuit in late 2002. Citigroup tried to investigate but was unable to learn any details, even after appealing to colleagues at Samba and seeking help from the Saudi government, the U.S. State Department and the U.S. Treasury. In May Citigroup set plans to sell its 20% stake in Samba and end its presence in a market it had served since 1955.

Citigroup had run Samba under a management contract since 1980. At one point Citigroup had 30 people at Samba, including the managing director, the treasurer and chiefs of a few departments. Samba was treated as a Citi outpost, with access to all parts of Citi's network, auditing teams, new technology and marketing expertise.

Samba, the second-largest bank in Saudi Arabia, with a 12% share of bank profits in the kingdom, earned $383 million in 2003. It was the linchpin of Citi's close ties to the Saudi elite. The royal family's Prince Alwaleed Bin Talal Alsaud, the world's fourth-richest man, owns $9.4 billion in Citigroup stock and a 7%-plus stake in Samba. Samba's chairman was billionaire Abdulaziz Bin Hamad Algosaibi, who died last year; his family, too, owns 7% or more of Samba.

Citigroup's problems began in 2000, when Saudi Arabia's royal family issued an edict requiring large banks in the country to create a charitable account that would channel donations to "martyrs" of the Palestinian uprising. The Saudis billed this as a "humanitarian" effort and decreed that each new account would be known as Account 98. (HSBC and ABN decline to comment on Account 98; Crédit Agricole denies its Saudi affiliate has one.)

The effort was managed by the Saudi Committee for the Support of the Intifada Al Quds, says a U.S. government official. The committee is run by Prince Naif Bin Abdul Aziz, the interior minister, an official in the Israel Defense Forces says. In October 2000 another royal, Prince Salman Bin Abdul Aziz, governor of Riyadh, encouraged citizens to deposit money in Account 98.

In still another lawsuit, the Saudi committee is alleged to have funded—through Arab Bank—suicide bombers and Hamas, the Palestinian group that has claimed responsibility for dozens of suicide bombings in Israel in recent years. That suit, filed in July in U.S. district court in Brooklyn on behalf of eight families of terror victims, alleges that $42 million was distributed to "terrorists and/or their beneficiaries." The payments were aimed at funding terror groups and giving a "meaningful incentive" to recruits, the suit alleges. Arab Bank, publicly traded on the Amman Stock Exchange, denies it.

The Saudi government's role in paying death benefits to relatives of suicide bombers didn't spark much concern in the U.S.—until after the terror attacks of Sept. 11, 2001. Undaunted, Saudi officials renewed their call for Account 98 donations in December 2001, making an appeal on a government-backed Web site.

Along the way, Israeli officials were gathering evidence about the Saudi-Hamas connection. One lead grew out of a bombing in Tel Aviv on July 1, 2001. Twenty-three people were killed outside a beachfront disco when a man detonated a bomb hidden in a bag he was carrying. Israel fingered a Hamas operative, Abdel Rahman Hamad, as directing the disco blast. Three months later Israeli snipers killed him as he sat reading the Koran on his roof at home in the West Bank.

Hamad's name surfaced a few months later, as Israeli troops stormed the West Bank offices of the Tulkarm Charity Committee, which the U.S. government calls a Hamas-controlled front. Stored in a Tulkarm computer was an Arabic spreadsheet carrying the official logo of the "Kingdom of Saudi Arabia, the Saudi Committee for Support of the Intifada Al Quds."

The spreadsheet lists Hamad and indicates his family had received 20,000 Saudi riyals ($5,300). Seized documents show that the Tulkarm group received $545,000 from the Saudi committee and that it funneled funds to 102 families, including eight of suicide bombers.

In late 2002 Citigroup officials asked Samba about Account 98 but got nowhere. Saudi secrecy laws forbid Samba from revealing account records to anyone outside the kingdom. Yet U.S. law prohibits U.S. banks from doing business with Hamas or any other terror group. In early 2003 Citi contacted U.S. Treasury and State Department officials, who spent the ensuing months in talks with the Saudis, worried that Account 98 cash might be going to terrorist activity.

Citigroup, unable to crack open Account 98, ditched the Samba contract last fall, saying Samba would "complete the transition to local management as originally contemplated." In May Citigroup sold its 20% stake to the Saudi government for a $760 million aftertax gain.

Now the Saudis, at U.S. urging, are phasing out Account 98, folding it and other charity accounts into a single new entity. This move may, or may not, do anything to stop the flow of money to bombers' families. F

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Name That Note

Is it stealing to copy half a measure from a 1970s funk record? If the intellectual-property hawks have their way, yes.

By Daniel Fisher

THE STORIES SOUND LIKE URBAN legends, only they're true: A judge halts the distribution of a Bruce Willis movie because one scene resembles a drawing by an avant-garde architect. The Beastie Boys are sued for using a six-second snippet of an obscure flute recording—even though they got a release from the record company beforehand. And, most recently, a federal appeals court holds a film studio liable for a soundtrack tune that includes a three-note guitar lick from a recording by 1970s funkster George Clinton.

Copyright blues: Bruce Willis; George Clinton; the Beastie Boys.

What's next, copyrighting a single note? We're almost there. In a digital world, where entire songs and movies can be composed from bits and pieces of other media, lawyers are working overtime to protect what their clients see as the right to be paid for every scrap of intellectual property.

This movement may have strayed into the ridiculous with a September ruling by the Sixth Circui Court of Appeals in Cincinnati, which held that the rap artists NWA violated copyright laws by "sampling" a guitar lick from a 1975 hit by George Clinton and Funkadelic called "Get Off Your Ass and Jam." Never mind that the lick was two seconds long, or that NWA changed the pitch and "looped" or lengthened it to 16 beats to put it into a movie soundtrack. The three-judge panel determined that any copy of a sound recording, no matter how brief, violates federal copyright law unless the copier obtains a license.

"If you go in and take something that doesn't belong to you, it's stealing," says Richard Busch, attorney for Bridgeport Music, the Detroit label that sued over the NWA recording.

Pure sophistry, responds Yochai Benkler, a Yale Law School professor who specializes in digital copyrights. Benkler equates the court's position with that of a homeowner who demands a payment from every airliner that passes over his property.

More sensible, Benkler and other say, is to apply the concept of *de minimis* use—in essence, is this scrap too small to worry about? (Bor

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rowing small amounts of a copyrighted work is generally allowed, under the "fair use" concept, for educational purposes, parody or a review.) That's what motivated a federal appeals court in San Francisco to throw out a lawsuit against the Beastie Boys for using a few flute notes from a 1978 recording by James W. Newton.

Not so lucky was Universal Studios, which in 1996 was forced to edit the thriller *12 Monkeys* to eliminate a scene that resembled a pencil drawing by architect Lebbeus Woods.

Artists, as a group, do not benefit from this zealous defense of digital bits. Record companies charge the costs of sampling licenses against the royalties of the performers who use the samples; at the other end, they keep half or more of the royalties.

In many cases the original artist no longer owns the sampled recording anyway. George Clinton, for example, lost all rights to his 1970s hits in a court fight with Bridgeport owner Armen Boladian. Boladian has filed 700 suits to collect royalties from samples of the recordings Clinton no longer owns. "The artists aren't getting anything," Clinton fumes.

"If you go in and take something that doesn't belong to you, it's stealing."

The process certainly isn't pleasant for musicians who rely on digital technology to compose. New York hip-hop artist Pete Miser composes his tunes out of thousands of digital snippets of music, from Shostakovich to the soundtrack of *The Good, the Bad and the Ugly*. When a couple of Miser's tunes were selected for the short-lived TV series *The Handler* on CBS, he had to rerecord them, minus the samples.

"There are very few people on the planet who would say, 'That's the high-hat [cymbal] from the Skull Snaps' 'It's a New Day,'" Miser says. Other than royalty lawyers, that is. F

The Vision Thing

EMC's quest for new revenues takes it into the world of consulting.

By Daniel Lyons

The solutions guy: Chief Joseph Tu

TECH COMPANIES CAN'T JUST have products. They have to have a vision. At IBM, it's "on-demand" computing. At companies in just about any business more complicated than hubcaps, it's "selling solutions." At EMC, the biggest player in data-storage hardware, it's "information life cycle management."

Grand concept here: EMC won't make its living merely manufacturing hard-drive arrays. It will run projects to "enable" and "implement" things like "policy-based storage optimization."

In plain English, Chief Executive Joseph Tucci is moving EMC into consulting and services, much as IBM did a decade ago when mainframe profits began to peter out. EMC has grouped 7,500 employees into a services organization and has spent $4 billion to acquire four software companies, aiming to offer one-stop shopping.

This, declares the Hopkinton, Mass.-based firm, will save customers money by moving records they rarely need from its high-end, multimillion-dollar storage boxes to its cheapo machines. And then they could install software (from EMC) to automatically migrate data as it ages and pay consultants (EMC's) to make this happen.

If there were nothing to storage but hardware, you wouldn't want to be in the business. EMC's sales in 2003 were $6.2 billion, 30% below their 2000 level; net profit of $496 million was down from $1.8 billion in 2000. Demand for storage is picking up, but storage hardware prices are plunging so fast—34% a year, market researcher IDC says—that volume cannot keep the top line plump.

One rival scoffs at EMC's move. "The storage management project that takes three years and costs $50 million is not a value proposition," says Jeremy Burton, executive vice president at software maker Veritas.

But EMC's services group won raves after designing a tiered storage system for Harvard Medical School and four affiliated teaching hospitals. "It's as if I outsourced my storage management issues to them," says John Halamka M.D., chief information officer at the med school.

This year Merrill Lynch expects EMC's sales to grow 30% to $8.1 billion with most of the growth coming in software and services.

David Goulden, executive vice president at EMC, once helped Wang Global carry out a transformation from pure hardware to hardware-plus-services, so EMC's new vision is easy for him to see. "Customers," he says, "don't want products; they want solutions." No kidding. F

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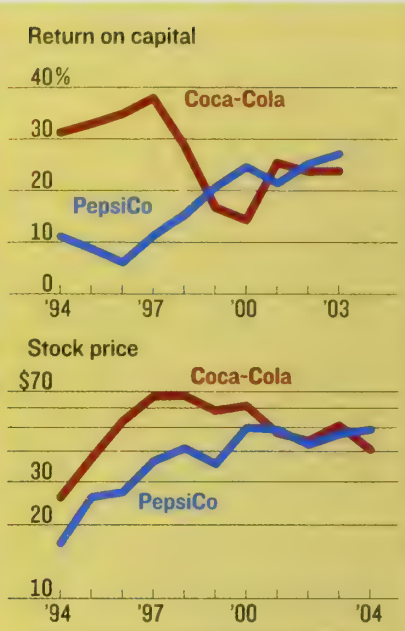
WHO'S GOT THE FIZZ?

The hits just keep on coming for Coca-Cola. In September new Chief Executive Neville Isdell announced that second-half earnings would be as much as 22% below analyst expectations. What a difference a decade makes, as the accompanying charts show comparing the return on capital and stock prices for Coke and PepsiCo. Pepsi leaped ahead by shedding its capital-intensive, low-margin Pepsi Bottling Group and its restaurant business and acquiring Quaker Oats *(see gatefold, p. 67)*. Its stock price has climbed 12% annually over the past ten years; Coke's, a mere 5%. With soda volume flat in the U.S., having lots of brands is critical. PepsiCo has 16 brands with $1 billion in sales, including Frito-Lay, Gatorade and Tropicana. Coke has 6. It looks like Pepsi is the real thing.

—Kurt Badenhausen

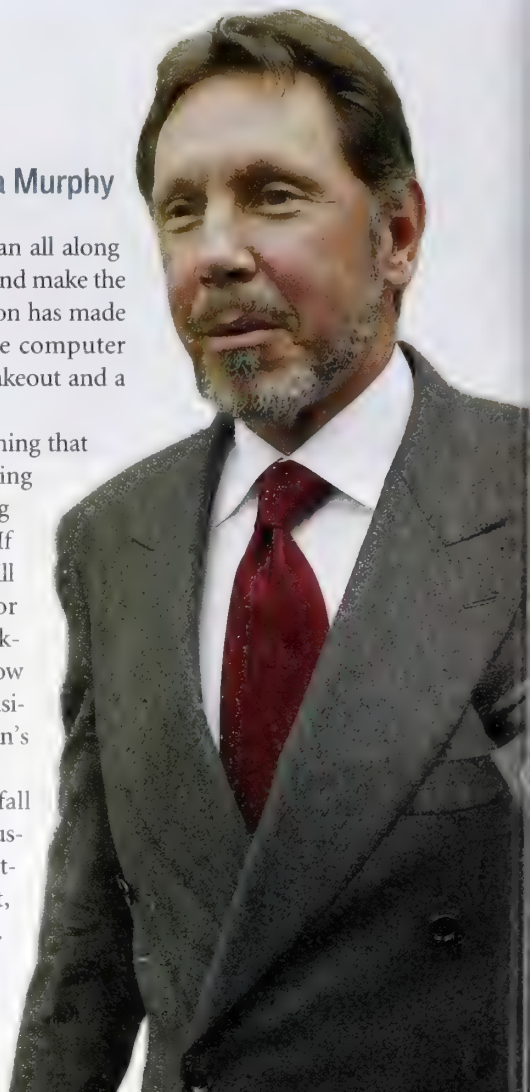


Source: Reuters Fundamentals via FactSet Research Systems.

TAKEOVERS

Buyer's Remorse?

Oracle's Larry Ellison finally has a judge's clearance to acquire software vendor PeopleSoft. Does he really want it? By Victoria Murphy



THE EARLY TAKE ON ORACLE'S tender offer for PeopleSoft was that it was insincere. Oracle boss Lawrence Ellison just wanted to sabotage PeopleSoft's relations with customers. So said various pundits when the takeover was announced a year ago.

Now that a federal judge, rejecting antitrust claims, has given Oracle the green light, the possibility has arisen that Ellison was dead serious about the deal all along. He has, after all, raised the offer price from $16 a share to $21, or $7.7 billion, and has spent $88 million on legal and banker fees fighting for the right to make the acquisition.

PeopleSoft doesn't look like a bargain. Its license revenues have fallen 18% over the past year; for every $100 in new software sales PeopleSoft spends $136 in sales and marketing.

Ellison says he wants the company for the steady stream of maintenance and services revenue coming from existing customers. (The gross margin on PeopleSoft's services is 56%.) Maybe the plan all along was to chop out the sales force and make the most of the installed base. Ellison has made no secret of his belief that the computer software industry is in for a shakeout and a consolidation.

Consolidation is not something that PeopleSoft employees are looking forward to. Their chief, Craig Conway, tossed in this grenade: If the deal goes through, Oracle will have to spend $2.2 billion for raised executive severance packages and customer rebates. "How badly do you want a crippled business?" asks Sanford C. Bernstein's Charles Di Bona.

The acquisition may yet fall apart. The U.S. Department of Justice might appeal, European trustbusters could probably stop it, and Oracle could just walk away. But maybe, just maybe, Ellison will buy the company. F

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IS GOD A DEMOCRAT?

All those hurricanes in Florida may yet claim another victim—President Bush. According to a study by two Princeton University professors, voters in farm areas hold incumbent parties responsible for bad weather in their states, whether too wet or too dry, if their crops suffer. And it doesn't matter if voters understand it was an act of God, or whether or how well a President responded to a disaster.

The study by Christopher H. Achen and Larry M. Bartels looked at the 2000 election. The politics professors think that a total of 2.8 million people voted against Al Gore in 2000 because their states had been too wet or dry, costing him seven tightly contested states: Arizona, Florida, Louisiana, Missouri, Nevada, New Hampshire and Tennessee. This year, in the wake of the hurricanes, President Bush may no longer have Mother Nature on his side in Florida, where his slim victory in 2000 proved decisive.

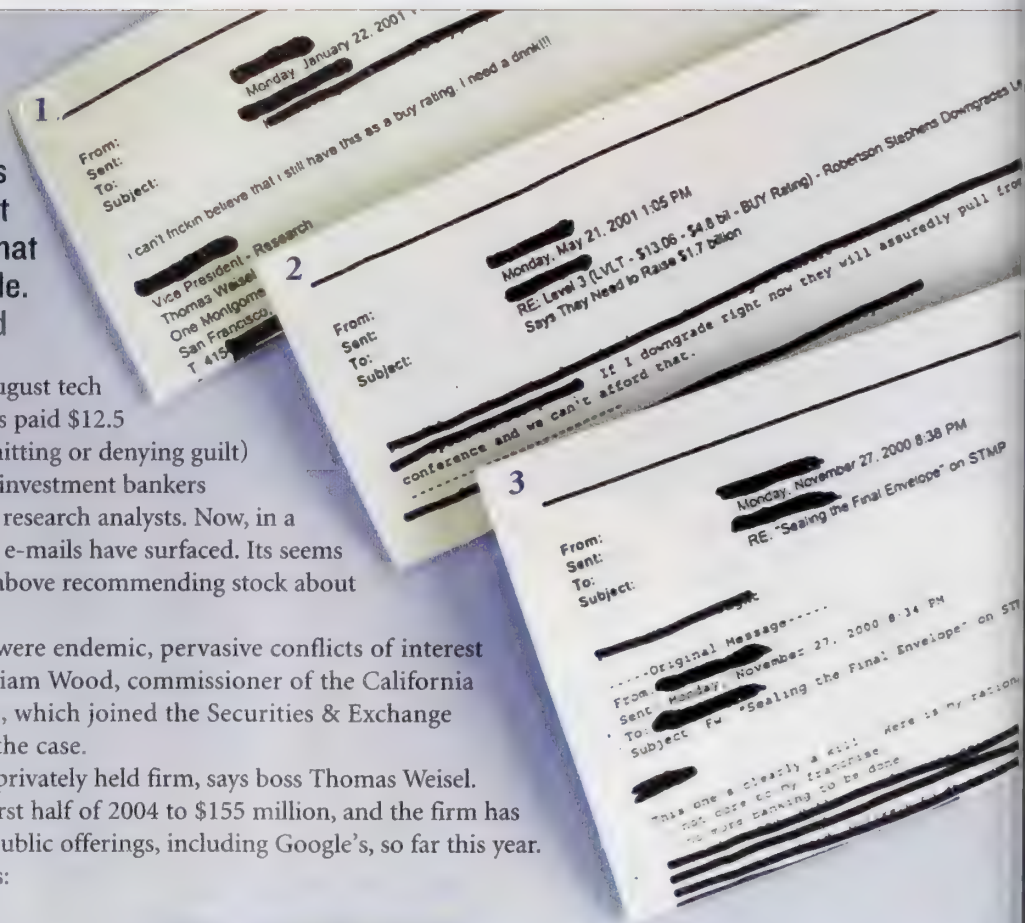
"I think the story in Florida is disasters tend to hurt the incumbent," says Achen. "It wouldn't surprise me if it would move the vote one percentage point. That would have been plenty last time to swing the state."

"The theory is nuts," says Douglas Bournique of Florida's Indian River Citrus League, who doesn't believe people hold the President accountable for divine acts. "You get good years and you get bad years, and this has just been a tough one." —*Andy Stone*

Junk Mail

Thomas Weisel Partners loves technology, except maybe the technology that makes e-mailing possible.

By Elizabeth MacDonald



Shades of Henry Blodget: In August tech house Thomas Weisel Partners paid $12.5 million to settle (without admitting or denying guilt) regulatory allegations that its investment bankers inappropriately influenced its research analysts. Now, in a familiar refrain, embarrassing e-mails have surfaced. Its seems that Weisel analysts were not above recommending stock about which they had misgivings.

"The e-mails show there were endemic, pervasive conflicts of interest at Weisel Partners," says William Wood, commissioner of the California Department of Corporations, which joined the Securities & Exchange Commission in prosecuting the case.

None of this has hurt the privately held firm, says boss Thomas Weisel. Revenue was up 48% in the first half of 2004 to $155 million, and the firm has helped underwrite 22 initial public offerings, including Google's, so far this year. Some of the offending memos:

1▶INFOSPACE
Weisel's analyst agonized about his "buy" recommendation on a banking client, InfoSpace. "I should have downgraded the stock long ago!" one e-mail said. Another called the company's numbers "complete BS." Weisel rode its "buy" rating on the stock from $43 in January 2000 down to $2 in July 2001.

2▶LEVEL 3 COMMUNICATIONS
A Weisel analyst wanted to downgrade Level 3's stock, but he was worried the company might withdraw from the firm's tech conference. The analyst later noted: "I've basically been telling our clients that it is a great short." Level 3's stock fell from $78 in September 2000 to $6 in June 2001.

3▶STAMPS.COM
When this Internet postage company was an underwriting client, Weisel kept a "buy" on it, all the way from $35 in January 2000 to $6 in September. But when Stamps.com ditched Weisel for Goldman Sachs, Weisel's analyst discovered some reasons—e-mailed to a colleague—why coverage should be dropped.

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CISCO SYSTEMS

Opportunity Rings

If Avon's calling, chances are it's on your cell phone. Text ads are the latest intrusion by marketers.

By Tatiana Serafin

THIS PAST SUMMER 25,000 CONsumers, aged 18 to 24, received short text messages on their cell phones alerting them to numbers on 225 million bottle caps of Snapple iced tea, pink lemonade and the like. People holding a winning number, announced by text message and traditional media, landed overseas trips and walk-on parts on TV shows.

An annoyance to cell phone users? Maybe not. A third of the respondents went on to buy a Snapple beverage. Twenty-four percent sent a message back to Cadbury Schweppes, the brand owner, requesting more information. Fourteen percent even forwarded the message to friends. That, at least, is according to the creator of the campaign, a company called Enpocket.

Telemarketing calls at dinnertime suddenly seem old-fashioned. Cell phone texting technology gives companies wondrous access to on-the-go consumers—at least those who have given permission to their wireless carriers or other marketers to release their numbers. Messages are short, no more than 160 characters, but they are interactive, trackable and targeted. And they offer the most tantalizing opportunity since Madison Avenue discovered Internet banner ads. "This feels like it's going twice as fast," says Jonathon Linner, 35, chief executive of Enpocket. His company charges an average of $115,000 to build and run a campaign.

More than a dozen upstart mobile marketing providers are vying for projects from big companies. Among the campaign creators, Mobliss, an advergame maker, is perhaps best known. It helps fans of Fox's *American Idol* vote for contestants through an AT&T Wireless short code.

Enpocket has created text campaign for Reebok and Time Warner in the U.S. and Coca-Cola and British Airways, amon others, in Europe and Asia. In the U.K. mar keters already send streaming video cel phone messages, like the one Enpocket cre ated for Warner Bros. to promote the movi *Catwoman*. Coming soon: Wireless tech nology will allow marketers to track cus tomers and dispatch a message when the are near a point of purchase, like a bar.

But texting is still a new concept in th U.S.—and marketers are reluctant to try i Privacy and spamming are a big concern. I June Verizon Wireless filed a federal lawsu against a number of individuals, allegin they sent more than 4 million un-autho rized messages to cell phone users.

A lot of consumers remain clueless. Onl 20% of the nation's 169 million cell phon users regularly send or receive text message They cost recipients up to 10 cents each Linner acknowledges the challenge: "Trut is, this is still a new market," he says.

Got a number? Enpocket boss Jonathon Linner

BILL GATES, DJ

Microsoft's detractors say Windows copycatted Apple's ideas. Now Microsoft is copycatting FM stations. Its new Media Player has an option that lets users listen, f free, to virtual radio stations that mimic 980 FM stations, playing the same music a invoking the same call letters.

Fans of the soft rock found on San Francisco's KLLC (Radio Alice) can listen to a simulated version on their desktops; sc can fans of New York's hard rock WXRK (K-Rock). Even better, promises Microsoft, its version of the stations features "fewer ads, no DJ chatter and less repetition

Microsoft can pull this off because stations' playlists are matters of public record, compiled by Nielsen BDS' tracking service. Microsoft simply buy lists of what each station plays and programs an ersatz version. It pays undisclosed royalties to the music labels.

Whether Microsoft can get away with using a station's call letters and other trademarks like its nickname (Radio Alice) is an open question. Radio giant Clear Channel *(see story, p. 106)* says its lawyers a reviewing the new software feature, released in September, and Microsoft says it ha already heard complaints from individual stations.

There might be a bigger hue and cry if more people listened to Internet radio. Though Arbitron/Edison Media Research says 16% of Americans tune in at least onc month, advertisers are skeptical. It appears Internet radio advertising gets just a few million dollars a year, compared with $20 billion for broadcast radio. —*Peter Ka*

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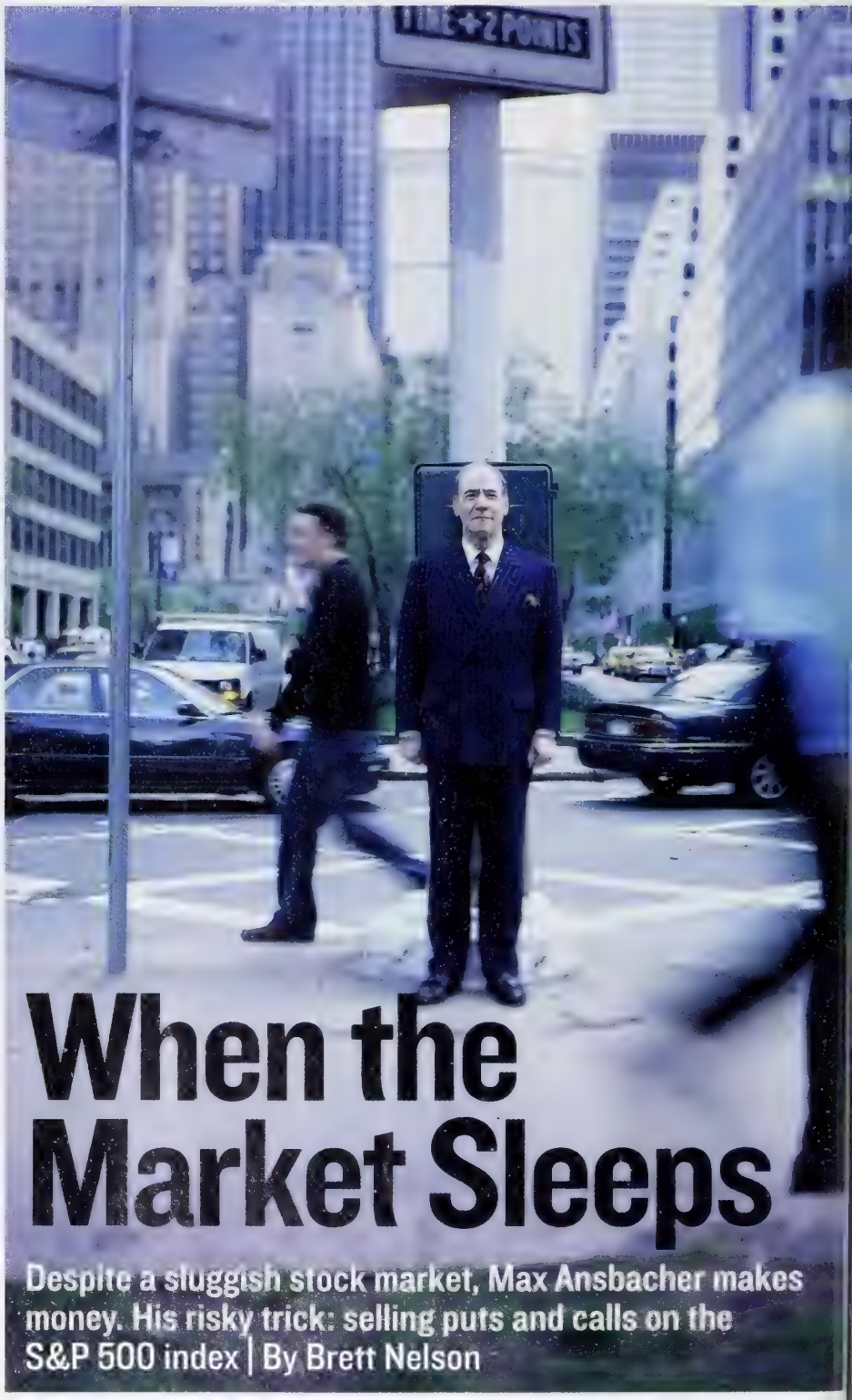

When the Market Sleeps

Despite a sluggish stock market, Max Ansbacher makes money. His risky trick: selling puts and calls on the S&P 500 index | By Brett Nelson

SNARLED BY RISING OIL prices, corporate earnings worries and terrorism fears, the benchmark S&P 500 has barely budged in 2004. How can you make money in the market if stocks sit idle for the balance of the year?

Max G. Ansbacher has an answer, albeit a risky one: Sell option contracts on the S&P 500 and collect the purchase price (called the premium), expecting the options to expire worthless in a gridlocked market. Yes, you can make money doing this. But it is definitely not one of those investment strategies to bet your kid's college tuition on.

Index options, traded at the Chicago Mercantile Exchange and the Chicago Board Options Exchange, work like options on individual stocks. The underlying index to which the options apply, however, is less volatile than an individual stock because it represents a diversified basket of shares. Selling a call (the right to buy) on the index is a bearish bet; selling a put (the right to sell) is a bullish one. Selling both is a bet on lower than usual market volatility. The low-volatility bet has paid off so far this year.

Ansbacher sells only short-term calls and puts—expiring in six weeks or less—that are out of the money. A call is out of the money if the stock price is less than the exercise (also known as strike) price, and vice versa for puts. With the S&P 500 at 1115, a call with a strike of 1160 is out of the money. If the index is 1165 on expiration date, the call pays off at five times the contract size ($250, in the case of futures); if the index closes at 1160 that day, the call pays nothing. (Unlike options on individual shares, which are closed out with the delivery of securities, index

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A Matter of Trust

by Lesley Kump and Lacey Rose

THERE IS MORE TO CORPORATE PERFORMANCE THAN what you see in the earnings reports. Could an investor have anticipated the trouble at companies like Enron, Adelphia, WorldCom and Tyco by looking more closely at how they were governed and how they kept their books? Their problems, to be sure, are far more visible in hindsight, but nonetheless each left telltale signs that all was not well. Robust reported earnings growth at both Enron and WorldCom was not supported by hard cash. The Adelphia board was stacked with company insiders who turned a blind eye to self-dealing by company executives. Tyco's chief executive raided the company's coffers, and its P&L statement was plagued by constant writeoffs.

In this, the third report in our Beyond the Balance Sheet series, we provide shareholders with scorecards on corporate integrity and earnings quality for the 30 largest U.S. companies based on market capitalization.

The integrity measure rewards companies with underpaid bosses (like Microsoft), outsider-dominated boards (Johnson & Johnson) and a history of responsiveness to governance proposals from shareholders (Altria). It docks those with antitakeover defenses (Amgen), problem directors (Bank of America) and legal or regulatory problems (Merrill Lynch).

The earnings-quality grade rewards companies for having high sums of operating and investing cash flow relative to reported earnings (Cisco). It penalizes those with lots of nonrecurring charges (Time Warner) or a habit of falling short of Wall Street earnings expectations (Wells Fargo). As the recent accounting debacle at Fannie Mae shows, how a company keeps its books is just as important as how it is governed.

Our sources: governance experts The Corporate Library and Institutional Shareholder Services; earnings-quality sleuths Criterion Research Group and Audit Integrity; and data-provider FactSet Research Systems. For more integrity grades, go to forbes.com/extra. Also available at forbes.com: the two earlier Beyond the Balance Sheet reports, on brand values and R&D spending. F

GENERAL ELECTRIC

GE, run by Jeffrey Immelt since Jack F. Welch retired in 2001, is one of only two companies (PepsiCo is the other) in our table that scored in the top 10% for both corporate governance and earnings quality. The board meets frequently (13 times a year) and is independent (12 of its 16 members don't work at the company). GE has either met or exceeded Wall Street's earnings target for 19 of the 20 latest quarters. GE's shares have outperformed the S&P 500 by a 2-to-1 margin over the past ten years.

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MICROSOFT

One reason Microsoft gets an A for corporate governance is that Chief Executive Steve Ballmer and Chairman Bill Gates, unlike their employees, do not get stock awards. Microsoft also gets high marks for shareholder responsiveness (earlier this summer the company announced that it will return $75 billion to shareholders over the course of the next four years, including a one-time dividend of $3 per share) and accounting (the company broke ranks with the technology sector by expensing stock options).

REPEAT OFFENDERS

These companies have taken the largest "nonrecurring" charges over the past five years relative to their sales. Each has squandered billions of dollars of their shareholders' capital. Time Warner had to deduct $100 billion for its ill-conceived merger with AOL. Microsoft has taken hits totaling $5.5 billion for asset impairments.

	NONRECURRING CHARGES	
	As % of sales	($bil)
TIME WARNER	70.8%	$100.9
AMGEN	12.3	3.3
PFIZER	7.1	12.5
MICROSOFT	7.0	10.0
CISCO SYSTEMS	4.2	4.1

Source: Audit Integrity.

"The occasional nonrecurring item is almost inevitable for most businesses," says Jim L. Melcher, president of Balestra Capital. "The problem is when these one-time charges start appearing every year."

PHOTOGRAPHS FROM LEFT JAMES LEYNSE / CORBIS NO CREDIT RICK MAIMAN / BLOOMBERG NEWS, ALESSANDRO DELLA VALLE/ AP PHOTO / KEYSTONE

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Beyond the Balance Sheet ▶

options sometimes settle in cash.)

A Wall Street veteran with a rich basso and a penchant for pinstripes, Ansbacher, 68, thinks the investment climate is so iffy that the flat market will persist for the next few years, allowing him to pocket the premiums on unexercised options. "We're just slugging it out," he says of the market.

His gamble is far from unreasonable. Three-fourths of option contracts expire worthless, notes John Summa, president of OptionsNerd.com, who studied returns from 1997 to 1999 in five large options markets, including the S&P 500 and Nasdaq 100.

That's why, if you're selling options, you're likely to wind up with a succession of small profits punctuated by the occasional big loss. While Ansbacher sells both puts and calls, trying to stay market neutral, often he'll tweak the weightings using a homespun metric to anticipate market moves (*see box*).

For individual investors, Ansbacher's strategy is doable but hazardous. Most small investors selling call options sell covered calls. That means they own the security underlying the option contract. This strategy has limited risk: If the stock climbs to the sky, you simply deliver your shares at the strike price to fulfill the contract. Selling a covered put is more of an abstraction, but you could argue you are doing that if you have cash lying around equal to the value of the underlying securities and wouldn't mind being forced to purchase the securities at the put price.

Ansbacher's options are not covered. They are, in the lingo of Wall Street, naked. He doesn't own baskets of S&P 500 stocks and doesn't have any plans to purchase them if a put winds up in the money. Instead, when he loses a bet, he buys back the option at a loss.

Big market moves do truly horrible things to naked sellers. If the market takes off and they sold calls, they get stuck having to buy expensive shares to hand over to the buyers. If the market tanks, sellers of naked puts wind up losing the difference between the strike price and the spot price. That's what happened to many giddy put sellers in the 1987 crash, remembers Paul Stevens, former head of the Options Clearing Corp., which processes and guarantees trades.

To limit damage, Ansbacher installed a stop-loss order. If the whole account is down 3% in the first week of a calendar month, he closes his positions and waits until the next month to resume trading.

Ansbacher got hooked on selling call options on individual stocks during the early 1970s. The commencement of option trading on the CBOE in 1973 coincided with a terrific time to be shorting calls on growth stocks like Avon and Polaroid. He eventually shelved a law career to trade options for clients at Bear Stearns. In 1995 he set up his own hedge fund in New York, devoted to index options at the Merc. He claims his Elizaville Partners fund has returned an average 25% a year after fees—2% annually, plus a 20% share of the profits—and trading costs. (Minimum investment: $250,000.)

Of course, Ansbacher has taken his lumps. In April 2000 (before setting up that blanket stop-loss order), he lost 20% in one month, when volatility shot up overnight. A year later Alan Greenspan caught Wall Street off guard by lowering interest rates half a percentage point between Federal Reserve Board meetings, sending the index up 5% in two days. That time he took a 19% hit as losses on calls swamped the premiums collected.

Here's how an Ansbacher trade works when all goes well. With the S&P index at 1115 in mid-September, Ansbacher, if he's bearish, might sell an out-of-the-money call with a strike price of 1160 expiring in the third week of October on the Chicago Mercantile Exchange. In this case the buyer would fork over a $625 premium. Ansbacher must put up earnest money with his

Weight the Options

While Ansbacher concedes he can't divine the direction of the S&P 500, he uses a rough measure to figure out whether to tilt toward puts or calls: the ratio of an out-of-the-money call's price on the index divided by an equally out-of-the-money put's price.

The higher the ratio (meaning that calls are expensive relative to puts), the more bullish investors appear to be; the lower the ratio, the more pessimistic they are. An average ratio is around 0.7. Why not 1.0? Out-of-the-money puts on the index are generally more expensive than equally OTM calls because more investors want to protect their stock portfolios on the downside by buying puts than tend to speculate on a rise in the index.

A self-styled contrarian, Ansbacher says that when the ratio gets too out of whack—falling lower than 0.5 or rising higher than 0.9—the market has a good chance of heading in the opposite direction than what the ratio implies. That logic seemed to work in January 2001 when the ratio hit a high of 0.97, suggesting that investors thought the index was ready to take off. Yet Ansbacher chose to sell more calls than puts. Wise move: The index fell 30% over the next eight months.

But like all market crystal balls, this one is far from infallible. In the last few months the ratio has not risen above 0.3. By Ansbacher's logic, index-fund investors and put sellers should have already had a nice surprise. It hasn't come. "[The ratio] is just a sentiment indicator," he admits. —*B.M.*

broker to make the trade. This money, called the margin, is roughly 4.5% of the value of the futures contract on which the option is written. That value equals the S&P 500 index value times $250, or $278,750. So the margin is $12,500. (Less active traders pay a bit more.)

If the index closes at 1160 or less by the third week in October, the call expires worthless and Ansbacher keeps the entire $625 less a small trading commission. You could say that he's making a 5% return on the margin, but this is a somewhat delusional way of looking at the profitability, because the $12,500 is just the ante in this poker game. If stocks start rising, you have to put in more margin money. There's no limit to your losses, assuming you don't resolve in advance to fold your hand at a certain point.

If the index exceeds 1160 at expiration, Ansbacher must pay out $250 per point above the strike price. So if the index ends up at 1170, he would take a net loss of $1,875. That's ten times $250, less the $625 in premiums he took in.

A put works in reverse. If he's bullish on the index, Ansbacher might sell one October 1035-put for a premium of $675. If the index doesn't drop below 1035 by expiration, he keeps the $675; each point below 1035 costs him $250.

Why trade index options at the Merc versus the CBOE? On the Merc, options are settled by delivery of futures contracts (if they end up in the money); on the CBOE, they settle in cash. The big difference: You'll need to pony up nearly three times the margin at the CBOE than at the Merc.

The tax treatment on gains and losses is the same for both exchanges: 60% long-term, 40% short-term. That means a top-bracket player owes a federal tax of 23% on winning trades.

One caveat: The average investor really pays a stiff cost beyond the broker's commission. The bid-ask spread on that October call might be worth $75, versus $0 to $50 for a 1,000-share block of stock. Real-time market quotes from data vendor DTN cost $75 a month (including $30 fee to the Merc). Partially delayed quotes are free via the Options Industry Council (www.888options.com). F

EQUITIES

A Penny Stock For Your Thoughts

You like long shots? Buy stocks of really sick companies. Mellon's Mickey Harley tells how to do it | By Daniel Kruger

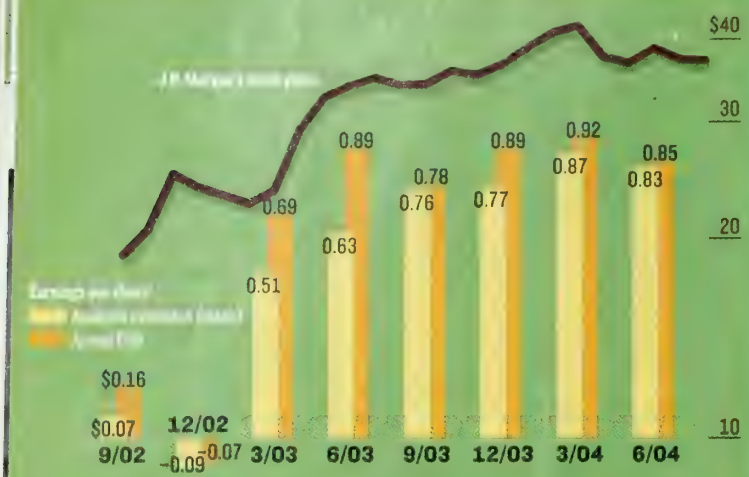
WILLIAM (MICKEY) HARLEY III is a vulture, investing in troubled companies that are in Chapter 11 or are trying to avoid it with an out-of-court restructuring. Unlike the average investor, money manager Harley has enough weight to influence a company's reorganization. You can't easily duplicate his moves, but you can pick at some of the carcasses he has found.

A onetime soap factory foreman who stumbled into a Wall Street job 14 years ago, Harley, 41, learned about distressed securi-

Underpromised, Overperformed

J.P. MORGAN CHASE

By constantly topping analysts' earnings estimates, its shares have beaten the S&P 500 by a 3-to-1 margin during the last two years.



[1]Excluding extraordinary and nonrecurring items.
Sources: Value Line; FT Interactive Data via FactSet Research Systems.

PFIZER

Sometimes a company's business is more profitable than its reported earnings would lead you to believe. Pfizer's yearly net income through March, based on accrual accounting, was $1.6 billion. But the company's cash earnings (net cash flow from operations plus investment income) were $34 billion. Earnings were dragged down by $5 billion in non-cash charges related to acquired research and development. CEO Henry McKinnell should be pleased: Absent those one-time charges, earnings per share are expected to increase an average of 12% annually over the next three years.

PEPSICO

While rival Coca-Cola has had to deal with charges relating to accounting irregularities, disappointing earnings and a stock that has fallen 6% during the past year, Steven Reinemund's PepsiCo has taken no such charges; its profitability has increased and its stock is up 7%. It's no accident that PepsiCo gets an A+ for corporate governance: Its board is dominated by outsiders, who frequently meet separately from management, an especially important indicator of overall board independence. According to Tom Lardieri, general auditor of PepsiCo, "... companies that have stronger governance practices generally demonstrate stronger financial returns."

CASH IS WHAT COUNTS

Companies whose combined cash flow from operations and investing exceeds accrual earnings have better earnings quality than those where the opposite is true. The short explanation is that accrual earnings require more estimating by management than cash earnings.

The accrual scores used in determining our earnings-quality score come from a study conducted by Criterion Research Group. It found that 60% of earnings restatements in 2004 were by companies that fell into its two worst accrual categories and were more likely to experience class actions and accounting problems. Here are examples of two companies whose accruals are on opposite ends of the spectrum.

Good Score	Bad Score
MERCK	**CITIGROUP**
Net income	Net income
$6.7 BILLION	$19 BILLION
Cash flow	Cash flow
$9.3 BILLION	-$152.5 BILLION

Trailing 12 months through March.

COMPANIES FIT TOGETHER.

UESTION OF INTEGRITY

P&L statement if you want to see what a company is reporting for earnings. The balance sheet will quantify assets and
t to gauge the reliability of those financial statements you need to consider corporate governance and earnings quality.

	SCORE		Market value ($bil)	LATEST 12-MONTH			Recent price
	Corporate governance	Earnings quality		Sales ($bil)	EPS	P/E	
tric/Jeffrey Immelt	A	B	$357	$139	$1.54	22	$33.79
Lee Raymond	B	C	309	256	3.27	15	47.56
even Ballmer	A	C	298	37	0.75	36	27.31
arles Prince	C	C	244	101	3.03	15	47.17
McKinnell	B	B	243	51	1.04	30	31.96
ores/H. Lee Scott Jr.	B	B	226	271	2.22	24	53.21
I Group/Maurice Greenberg	B	C	186	90	4.08	17	71.81
rica/Kenneth Lewis	C	C	180	55	3.72	12	44.38
ohnson/William Weldon	B	B	173	45	2.96	20	58.20
Palmisano	C	B	145	93	4.66	18	86.13
mble/Alan Lafley	C	C	144	51	2.32	23	56.60
s/John Chambers	F	B	137	22	0.71	28	19.80
arrett	B	B	133	33	1.11	19	20.46
thaway/Warren Buffett	D	A+	133	73	4,571.30	17	86,300.00
nunications/Ivan Seidenberg	C	B	113	69	1.19	34	40.51
co/David O'Reilly	B	C	109	130	4.93	11	51.35
Neville Isdell	C	B	104	22	1.98	22	40.60
nd Gilmartin	C	A	101	23	2.97	15	45.77
Louis Camilleri	B	B	101	86	4.58	11	49.16
ichard Kovacevich	D	D	99	33	3.90	15	59.05
lins	C	C	90	45	1.14	31	35.81
ications/Edward Whitacre Jr.	D	B	88	39	1.58	17	26.69
en Reinemund	A+	B	86	28	2.10	23	49.80
Robert Nardelli	B	B	84	69	2.11	18	38.13
Service/Michael Eskew	C	B	83	35	2.78	26	74.01
hase/William Harrison Jr.	C	B	82	44	2.31	17	39.42
Richard Parsons	C	C	77	40	0.91	23	16.85
Taurel	D	C	75	14	2.32	28	66.68
anklin Raines	A	D	74	52	7.71	10	76.38
Sharer	F	F	74	9	1.96	29	57.98

Criterion Research Group; The Corporate Library; Institutional Shareholder Services; FT Interactive Data and Reuters Fundamentals via FactSet Research Systems.

BEYOND THE BALANCE SHEET: INTEGRITY For an expanded version of this table, please visit www.forbes.com/extra.

B

HR & Benefits Outsourcing Payroll Retirement & Financial Management Health Care Talent & Organizational Change

Hewitt

www.hewitt.com/results

Company B

ties at Herbert Allen's Allen & Co. Now, running the $1.2 billion Mellon HBV hedge fund, he has the clout to push negotiations his way. Along with Carl Icahn, Wilbur Ross and other combatants in the restructuring arena, Harley immerses himself in the arcana buried in voluminous company filings and puts big capital on the line.

The leading players in securities of sick companies usually start out with bonds, expecting to get cash or newly issued equity in a restructuring. Smaller players are at a disadvantage here: The value of the bonds depends not only on their seniority but also on which creditors end up controlling the reorg.

Shares are a better bet if there's any hope that the original equity will survive. If not, you could wait until a recapitalization and then buy newly issued equity.

Harley bought stock in Denny's early this year when the restaurant chain's shares were selling for $1.17. Denny's avoided Chapter 11 and, after a $92 million cash infusion from big investors (Harley provided one-third), the stock trades at $2.85. You could have enjoyed a 140% run-up betting with him.

Obviously the risk here is as immense as the paper filings that overwhelm Harley's desk. In a bankruptcy the old equity typically vanishes or gets thoroughly diluted. Many of those long-shot equity stakes are bad bets. As Global Crossing was going through a reorganization in 2002, old shares were changing hands at 10 cents apiece even though the reorganization plan clearly made them worthless.

Post-reorg equity costs more and is worth more. Kmart came out of a recapitalization in 2003 with new stock trading at $14. The shares are now worth $85. The table on page 74 lists some post-reorg stocks.

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These companies took risks and fell into bankruptcy court, but their underlying businesses seem solid.

COMPANY	INDUSTRY	OUTLOOK	EMERGENCE DATE	TRAILING-12-MO. SALES ($BIL)
AIR CANADA	Airline	Grounded by high labor costs and low productivity; recapitalized and revitalized with smaller, no-frills approach.	Sept. 30	$5.8
HORIZON PCS	Telecom	Bad Sprint customers on rented network spelled doom; sold customers, pared debt.	Oct. 1	0.2[1]
MIRANT	Energy	Heavy debts did Mirant in; it sold assets, reworked power contracts and let 5% of its workers go.	2005[2]	4.9
NORTHWESTERN	Utilities	Fell hard for tech boom, spent on communications and data services; now returning to gas and electric roots.	November[2]	1.1
RCN	Telecom	Overspent trying to build its own national fiber network; will continue pushing bundled cable and phone services, but with $1 billion less debt.	Fall[2]	0.5

[1]Estimated, excluding discontinued operations. [2]Estimated. *Sources: Companies; Reuters Fundamentals via FactSet Research Systems.*

Reporter, which e-mails you Monday through Friday with news of courtroom developments, big investors' moves and the like. You can also search the service's database, including ten years of archives. Another tip sheet is BankruptcyData.com's weekly Silver service, costing $500 a year.

Pay attention to the maneuverings of someone like Harley, who often amasses both stock and bond positions. Now is a relatively propitious time for these ploys. An improving economy provides more fertile ground for stock bets than a slumping one. Bankruptcy filings peaked in 2002 with $98 billion in face value of defaulted bonds, and should slide to $33 billion this year, according to professor Edward Altman, a bankruptcy expert at New York University.

Harley grew up and now lives in Massapequa, N.Y., where his father was a lineman for the Long Island Lighting Co. An avid lacrosse player, he prefers doing business in a T shirt to a tie. After graduating from Yale in 1986, he took a job as foreman of a struggling Ivory soap plant. "Procter & Gamble was reengineering their manufacturing system to a hub-and-spoke system, and there was no way we could make it work," Harley recalls. After closing the plant, P&G offered to move Harley to Cincinnati. He declined, wanting to stay on the East Coast near his ailing father. He returned to Yale for business school.

Graduation found him out of work, living in a New Haven basement with his wife. He didn't have the finance experience to land a job on Wall Street. But he had one good connection: classmate and former lacrosse teammate Herbert Allen III, son of the investment banker and Coca-Cola board member. "Herb fortunately understood my plight; his father called me up and said, 'Would you like a job?'" Harley recalls. He was soon on the trading desk of Allen & Co., working on risk arbitrage (the simultaneous purchase of the stock of a firm being acquired with the sale of shares of the acquirer) and other strategies that he hones to this day. "It basically is the model for what we do at Mellon HBV," he says.

In 1999 Harley founded the hedge fund, which he sold in 2002 to Mellon Financial. He puts 10% or so of the portfolio in distressed equities. The rest is in merger arbitrage, convertible bond arbitrage and what he terms "special event investments," basically any opportunity Harley sees to make money. Like all hedge funds, this one is expensive: Mellon takes 1% of assets annually plus 20% of gains (minimum investment, $1 million). Also, it doesn't reveal performance data. But who says vulture investing is just for hedge funds? A handful of mutual funds specialize in distressed securities. The difference between a hedge fund and a mutual fund is the latter has lower fees, must publish its performance data and must offer easy redemption.

Of the dozen or so large investors who invest in sick companies, Harley stands out for his willingness to air his thoughts in his public filings, letting his targets know exactly what he wants them to do. When Harley took a 6% stake in Net security firm CoSine Communications in 2003, he wrote to CoSine saying his research indicated they had a good product, but couldn't sell it because they were burning through cash. He pushed for a sale, though CoSine wouldn't listen. After six months his campaign had pushed the stock price up, but Harley tired of the fight. He sold, taking a 70% gain to book, and CoSine continued to struggle.

Tips for would-be vulture investors:

Follow the big boys. How do you know whether it's wise to invest in distressed equity, always the poor relation in a restructuring when compared to debt? Check whether the large players have done so, via 13-D filings available at SEC.gov.

Example: Harley loaded up on Denny's stock and successfully fought a management plan to swap new, dilutive equity for $380 million of bonds carrying a hefty 11.25% coupon. Harley, who had spent $5 million on the moneylosing company's stock, was in no mood to see his position watered down. He argued that the chain, with operating income (earnings before depreciation, interest and taxes) of $132 million in 2003, had sufficient financial strength to fix itself—with help. He won the company over with the $92 million private placement he organized. That money and the larger bank credit line it helped secure went to a tender offer for the high-interest bonds.

Seitel, a marketer of seismic data in Houston, was in trouble in 2003. Warren Buffett's Berkshire Hathaway had gobbled up all $255 million (face value) of the debt—yet, after negotiating with Seitel, agreed to tender for Seitel stock at 40 cents a share. If the great man was willing to pony up for stock, Harley reasoned, then some

HEAVEN

EARTH

value must remain. Buying in the 30-cent range before Buffett's plan was approved, he snared a 9% stake, enough to have pull with the board. Then he mapped out a reorg plan that valued shares at 60 cents and redeemed Buffett's bonds at par, plus accrued interest. Funding came from a rights offering and a refinancing. The company left Chapter 11 in August and today the stock changes hands at $1.

Wait. NYU's Altman finds that buying stock in a company right after it exits court protection often pays off grandly. Of course, you have to assure yourself that it is strong enough to thrive and not do what wags call a "Chapter 22"—a second trip to bankruptcy court.

But don't wait too long. Kmart Holding, under the direction of turnaround artist Edward Lampert, climbed to $55 in June 2004, when it was clear Lampert was intent on selling Kmart's land rather than upgrading its retail operations. The shares have since gone up another 55%.

Consider buying a fund. Franklin Mutual Series has 10% of its assets in distressed debt and has a long history of buying sick securities, going back to Max Heine's plays in railroad bonds in the 1960s. Recently it has done well with California utility PG&E's bonds, picked up for 50 cents on the dollar during the state's 2001 energy crisis and now trading at par. Franklin has clocked a ten-year annualized return of 11.6%. You'll pay a 5.75% front load and 1.19% of assets.

Martin Whitman has 11% of his Third Avenue Value Fund in distressed companies. His largest holding (8%) is in Kmart. Another stake is in American Capital Access, a small municipal bond insurer facing downgrades because of capital shortfalls. After snagging some fresh cash, the company is now on the mend, and Whitman has a winner. Third Avenue has returned an annualized 13.7% over the past ten years; expenses run 1.11%.

Fidelity Capital & Income doesn't disclose the percentage of distressed holdings in its portfolio, but 17% of assets are in bonds rated Caa or lower, and another 18% are in bonds with no rating. Its ten-year return is 7.8%, expenses 0.78%. F

STOCK FOCUS

The Non-REIT

Fund manager Michael Winer tells why he prefers real estate operating companies over trusts | By Daniel Kruger

LOW BOND YIELDS MAKE REAL estate investment trusts look like a great income play. But Michael Winer, manager of the Third Avenue Real Estate Value Fund (assets: $1.3 billion), sees something better for investors: real estate operating companies.

Real estate operators differ from the more familiar real estate investment trusts in that they pay taxes (albeit not much, thanks to depreciation). The operators are exempt from the rule demanding that REITs pay out 90% of income. So the operating companies needn't borrow or dilutively sell more stock to raise capital for new investments. To Winer, this makes them the better bet for long-term capital gain. The payoff for his fund: a five-year annualized return of 20% versus –2% for the S&P 500.

Winer, who previously worked in real estate development, says his favorite investments lie where the opportunity for growth extends far into the future. That is why he likes St. Joe Co., which owns 820,000 acres in northwest Florida, 2.4% of the land in the state. "This is a company that will be developing this land for the next generation or two," says Winer. A good buy, he says, even at 39 times expected 2005 profits.

Winer also likes Forest City Enterprises, a real estate operating company which focuses on large mixed-use urban developments such as the new Atlantic Yards project in Brooklyn. If the project survives neighborhood opposition it will include an arena for relocating the New Jersey Nets basketball team recently bought by Bruce Ratner, chief executive of Forest City's New York affiliate.

Forest City has the money, experience and managers to pull off a longshot venture like Atlantic Yards, Winer says. Forest City Enterprises sells at 11 times estimated 2005 earnings from operations (before depreciation, amortization and deferred taxes).

Winer also invests in financially troubled companies with a real estate angle. Third Avenue has seen its initial $5 million stake in Kmart Holding (at a prereorganization price of $10 a share) rise ninefold since the company came out of Chapter 11 in May 2003 *(see related story, p. 72)*. Even if the retailing business craters, Kmart still has valuable real estate, which Deutsche Bank analyst Louis Taylor estimates is worth $150 a share. The $86 stock is selling at 13 times projected 2005 earnings. F

Real Estate Operating Companies

Real estate investment trusts pay healthy dividends, but fund manager Michael Winer thinks that these stocks—all of which have real estate angles—offer greater price gains.

COMPANY	PRICE: RECENT CLOSE	PRICE: 52-WEEK HIGH	P/E	LATEST-12-MONTH SALES ($MIL)	MARKET VALUE ($MIL)
FOREST CITY ENTERPRISES	$54.36	$56.50	46	$1,140	$2,719
KMART HOLDING	86.30	90.20	15	20,820	7,737
ST. JOE	46.73	49.08	41	840	3,538
TEJON RANCH	35.86	43.21	NM	17	567
TRAMMELL CROW	15.90	16.20	26	704	597

Prices as of Sept. 21. NM: Not meaningful.
Source: Reuters Fundamentals via FactSet Research Systems.

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HARDWARE

Tangerine Flake Streamline Baby

Hard-core videogamers are dropping lots of cash in their quest for the ultimate machine | By Brendan Coffey

AFTER HOURS OF PRODUCING PowerPoint presentations for his job as a hospice-care salesman in Malden, Mass., Sigurd Persson, 54, likes to blow off some steam. "I like to point huge destructive weapons at evil things and destroy them," he says. Most evenings Persson launches into a couple of hours of Far Cry, a shooting game in which he must pick off evil scientists on a series of South Pacific islands.

To get the best gaming experience possible, he ordered a custom-built PC with a 398-gigabyte hard drive, Bose speakers and an Nvidia GeForce 6800 graphics card. He had the minitower adorned with iridescent paint and a laser-cut, backlit design. All this cost $8,400. "The water looks so amazingly like real water. Everything else looks like a cartoon compared to this now," says Persson.

Consumers like Persson are making up a rare boomlet in the otherwise stagnant PC business. A recent study by Intel estimates there are 53 million Americans who play video computer games (that is, something beyond solitaire and mah-jongg). Gamers are older, and richer, than you might think. The average player is 33 years old and makes $81,000 a year. These characters trade in their PCs for new ones at twice the rate of average computer owners. Last year they spent $1.2 billion on PC games; an estimated 16% of them play at least three hours a day. The hottest PC game of the moment, Doom 3 has sold 1 million copies in just two months, to players eager to blast their way through 27 levels of demons, says its Mesquite, Tex. developer, Id Software.

A Digital Rogues Gallery

Ask any gamer and he'll tell you the same thing: You can't handle the demons with a $600 PC from Dell. For a good time with games like Far Cry or Doom you're going to have to spend that much just on the recommended graphics card from Nvidia or ATI Technologies, which will boost rendering speeds from 50 frames per second to 200. A PC equipped for serious gaming is going to cost at least $3,000 and, of course, do more for the manufacturer than an entry-level machine at a loss-leader $600 price. Rick E. Schwartz, senior product manager at Gateway, says manufacturers lose money on the low-end machines but can make a gross profit of 20% to 30% on the fancy ones.

Since April 2003 Dell, Gateway and HP have each introduced PCs tuned up for gaming, at prices ranging from $1,900 to $4,000. Dell sells colored "skins" you can snap onto its Inspiron laptop. "Everyone who needs a PC has one, so the market is saturated," says Billy P. Pidgeon, a senior analyst with the Zelos Group. "Games are often the only thing that drives upgrades."

Better yet for the manufacturers, they don't have to deal with support costs on a lot of these boxes because the gamers gleefully break their warranties in pursuit of the most tricked-out,

Manager by day, ogre-slayer by night: Craig Pinckney and his gaming PC.

custom hot-rod-PC money can buy. "If I pay $1,000 for a computer, you'd better believe I want to be able to fry it if I choose," says Christopher Scholz, a 21-year-old gamer who runs PimpedOutCases.net, a Web site celebrating customized PCs.

One of the most frequent tweaks is overclocking: running more voltage to the microprocessor to make it go faster than factory settings. Chipmakers have been known to reset faster chips to a slower speed and install them in place of a prior-generation chip that's out of stock. "Why buy a Ferrari if you're not going to run it around the track a few times?" says Scholz.

You'd better know what you are doing, or you might set fire to something. By overclocking the microprocessor, graphics cards and other components, a hot-rodder is likely to increase the temperature inside the minitower, which necessitates more cooling fans. Eventually it gets too loud, so gamers replace fans with a water-cooling system—essentially a car radiator for their computer—which also enhances overall performance. Some gamers even add antifreeze.

Once you've got a hot rod, you are supposed to show it off, in the noble tradition of the car buffs that Tom Wolfe once wrote about. Custom shops can cut out logos on the side and light them with neon rope lights, add blue-green LEDs to the fans inside or give the box a custom paint job. Oregon's Falcon Northwest Computer Systems offers custom work by an auto painter who hand-sprays 20 layers of paint in any design people want. Prices start at $400.

"When the best technology leaves you with money left over, how are you going to outdo your neighbor? Make the outside cooler looking," says Kelt Reeves, Falcon chief executive. His firm sells 400 PCs a month at an average price of $4,000. A private company, Falcon Northwest claims to be profitable.

Voodoo PC of Calgary, Alta. does similar volumes as Falcon. Recently Voodoo founder Rahul Sood finished a $50,000 PC for an Arab prince that not only had the fastest hardware but also gold plating on the exterior and interior of the tower. "It's not a demographic, it's a psychographic," he says.

"If I pay $1,000 for a computer, you'd better believe I want to be able to fry it if I choose."

Alienware Corp. has decided to appeal to the much larger segment of gamers who don't have an oil fortune, carving a business out of a line of PCs named Area 51 that look vaguely like alien heads and come in colors like "Martian red" and "conspiracy blue." Their average price is $3,200. You can't get a truly hot-rodded box from this outfit, but you can get a special Doom 3 PC to fully experience the hit game. The privately held Miami company, started in 1996 with $13,000 in capital by friends Nelson Gonzalez and Alex Aguila, will post sales of $120 million in fiscal year 2004, up from $92 million the year before.

Craig Pinckney, 34, a shipping manager at a Connecticut environmental laboratory, seriously considered trading in his Alienware Area 51 tower (complete with a cyborg-green paint job) for the new Doom 3 machine, but decided he could just upgrade his processor and video card instead. "I probably play every day, two to three hours, six days a week," he says.

Dell and other mainstream manufacturers may find it tough to appeal to the gamers they once hassled about warranty issues. And neither Dell, HP nor Gateway allows owners to overclock the Intel or AMD microprocessor. Dell "is like the safety razor of the PC world," says Scholz. His friend and co-Web master Jason Fernandez, 22, is equally dismissive of the big boys. For them, he says, "it's all about making the Benjamins."

The brand pull and pricing at the big PC makers will undoubtedly draw some gamers away from the customizers, but a pricey paint job can inspire confidence when it's time to frag some aliens. Says Far Cry fanatic Persson: "There is no other computer exactly like mine in the world. And that's pretty cool." F

Put a Hot Rod on Your Desk

Souping up the boring beige box isn't cheap, but if you want to play your best here are some suggestions for what you need.

	BASIC MACHINE DELL DIMENSION 3000	HOT ROD PC UPGRADE WITH:	COMPONENT PRICE
PROCESSOR	Intel Celeron D Processor 2.4 gigahertz	AMD Athlon 64 FX-53	$950
HARD DRIVE	80-gigabyte Ultra ATA/100	400-gigabyte Hitachi Deskstar	450
SOUND SYSTEM	No speakers	Bose Companion 3 Speaker System	250
MONITOR	17-inch CRT	32-inch Samsung SyncMaster LCD flat panel	4,400
POWER SUPPLY	250 watts	Enermax 550-watt power supply	175
COOLING SYSTEM	Built-in fan	Swiftech H20-220 liquid cooling kit	223
VIDEO CARD	Integrated Intel Extreme Graphics 2	Nvidia GeForce 6800 Ultra 256 megabytes	600
MEMORY	256MB DDR Sdram 400 megahertz	Corsair TwinX 512MB 3200LLPT	277
	PRICE TAG: $500	PRICE TAG:	$7,325

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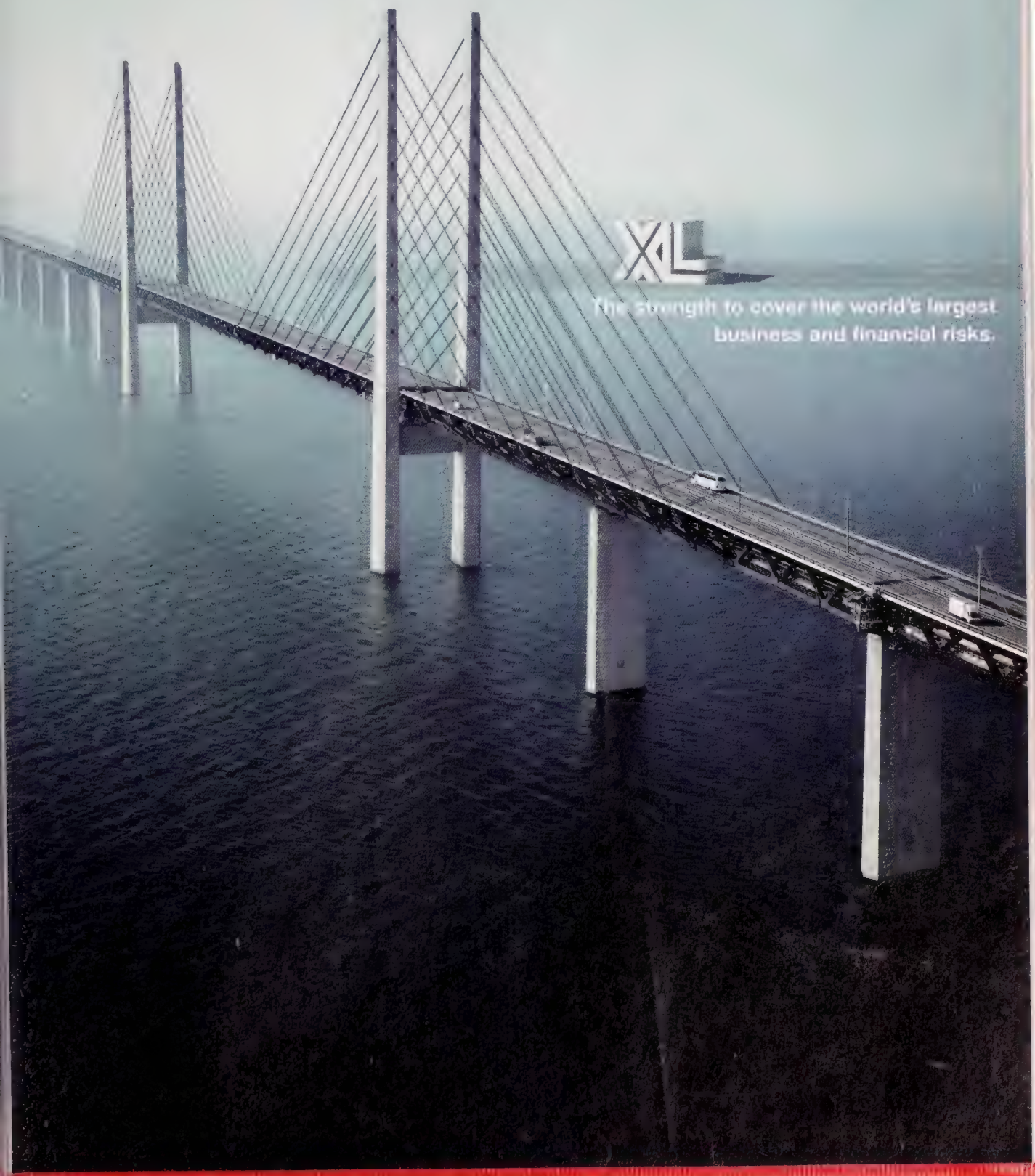

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Bijou in Your Basement

BIG MISTAKE FOR MY MENTAL WELL-BEING: I WALKED into a hotel ballroom full of JVC video equipment. The $4,500, 61-inch rear-projection TV showed off the company's D-ILA display-chip technology quite well. But a $13,000 front projector blew it away—in part because of the 8-foot-wide image it threw onto the screen. Better still: a $30,000 two-part unit with three of the company's full high-def resolution chips inside, a fancy image processor outside and a 10-foot image on the screen.

But images from an even higher-res projector, blown up to a width of 18 feet, were utterly spectacular. It would have been the Perfect Upsell, if only I'd happened to have a spare $225,000 in my home theater budget, plus many thousands more for special video processors, audio equipment and content. Now I'm spoiled, unable to shake the knowledge that for the rest of my existence I'll undoubtedly be squinting at a screen closer in size to my parents' 1952 17-inch black-and-white Raytheon than a 17-foot wall of video.

This and lots of other eye-popping stuff turned up in Indianapolis in September at the annual conference of CEDIA, the Custom Electronic Design & Installation Association. Typical attendees are custom installers adept at tweaking video screens, hiding wires and fitting theaters into people's homes. But for a convention dedicated to the delivery of entertainment, the show floor is remarkably free of booth bimbos and glitz: The focus is on big pictures and big sound.

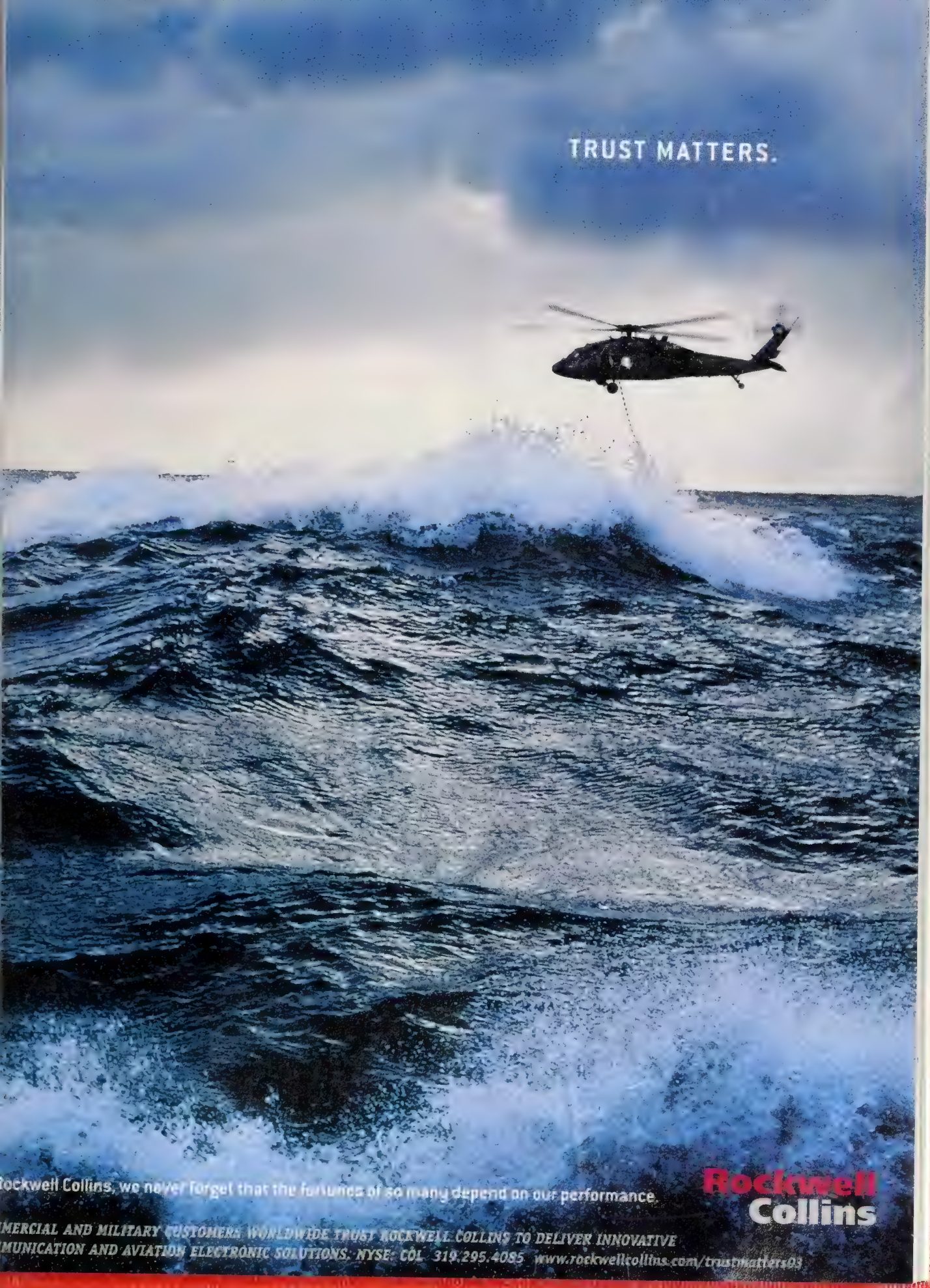
Still, things can get a little over the top. The show organizers award prizes like Best Home Theater and Best Media Room at several price points from under $80,000 to more than $1,000,000. It turns out that 80 grand can get you a miniature movie palace with disco ball, smoke machine and gilded faux Empire chairs, authentic down to the missing cup holders. From the show I learned that you can scrap the trappings, concentrate on the equipment and get a very nice setup for less than a tenth of that—though you might want to spend a whole lot more. Despite what some manufacturers would have you believe, true home theater doesn't really come in a box.

Home theater can be so good you'll quit going out to the movies. But that kind of quality doesn't come in a box.

The show confirmed my prejudice that when it comes to images, you ought to think big. And if you really want to see movies the way they were meant to be seen—by reflected light on a big screen—you need a front projector. These are increasingly beginning to cluster into several price ranges. In the troposphere, $30,000 units like JVC's DLA-HD2K-SYS and Sony's Qualia 004 use variants of three-chip liquid-crystal-on-silicon (LCoS) technology and can display every last pixel of the top-shelf 1920x1080 (1080p) high-definition mode.

Excellent units in the $13,000 neighborhood typically use Texas Instruments' mirror-flipping Digital Light Processing (DLP) system at the lower (but still high-def) 1280x720 (720p) resolution. Samsung's new model SPH700A, whose design has been tweaked for accurate color by video guru Joe Kane, looked excellent. JVC's higher-res three-chip

Empire strikes back: what your home theater can look like for under $80,000—including hidden disco ball.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LCoS-based DLA-HX2U was another winner.

But now you can get a 720p DLP projector for about $4,000. I didn't see it in action, but the specs for Sharp's XV-Z2000 look excellent. And a mere $2,000 will buy you 720p in a unit that uses three LCD chips, which in the past have had highly delineated pixels that sometimes reminded viewers of peering through a screen door. That effect was significantly minimized in Panasonic's attractive PT-AE7000U.

With products as refined as these, a white bed sheet will not suffice as a screen. Companies like Stewart Filmscreen and Da-Lite offer a variety of models designed to work with particular types of projectors—and even with adjustable masks whose dark black borders can adjust to diverse screen ratios. But ambient light in the viewing room can be a problem. Sony showed an impressive prototype "black screen" designed to combat that issue by absorbing stray light; it hopes to offer it next year.

If you're not willing to watch movies in a dark room on a real screen, there are plenty of other options. Plasma flat-panels were everywhere, and they're getting bigger and cheaper. You can now buy a decent 42-inch high-def-ready unit for $4,000 (avoid cheap "extended definition" models). Want bigger? LG Electronics showed a 71-inch model with a full 1080p screen. The catch: LG says early production will be "not in the hundreds of units" for "tens of thousands" of dollars each.

Flat-panel LCDs are getting cheaper and improving picture quality. Sharp introduced a striking, new 45-inch model with 1080p resolution at about $8,000; Samsung promoted a similarly priced 46-inch unit that lacks Sharp's built-in HD tuner.

Big-screen rear-projection TVs are getting significantly slimmer; RCA and InFocus showed under-$9,000, 61-inch DLP models skinny and light enough to hang on a wall. There were plenty of other 720p DLP rear projectors, too, including several models from Samsung that use Texas Instruments' new HD3 chip. It generates 2 pixels per mirror by optically shifting the image back and forth rapidly on the screen, a new does-it-with-mirrors trick that on initial viewing appears to minimize the already minimal screen-door effect at the expense of overall sharpness. The same twofer pixel technique will also appear on 1080p DLP models due early next year.

Rear-projection models using variants of LCoS technology

include two 720p JVC models in the $4,000 neighborhood and a $10,000, 70-incher with full 1080p resolution from Sony. LCD rear-projection sets are still in evidence, including Epson's model with a built-in printer. CRT (old-fashioned tube) models remain the price leaders: Rear-projection high-def units start at around $1,000, direct-view models with smallish screens at about $400.

TVs with built-in high-definition tuners are becoming abundant, in part because of FCC mandates. An agreement between electronics makers and the cable industry now makes possible "digital cable-ready" sets that can use a slim card instead of a bulky set-top box for cable input—though the cards are currently one-way and won't let you order pay-per-view or video-on-demand with a simple click of the remote. But TV makers can divert the content to a high-def hard-disk recorder; Toshiba showed an outboard unit, Mitsubishi a built-in model. It's pricier than renting a recorder from a cable provider, but you won't have to wait for it.

Traditional theater or multiplex-in-a-room? Film buffs and sports addicts indulge their fantasies.

I'm hoping to review some of these products soon. Meanwhile, here are a few home-theater rules of thumb.

1. Just about any high-def TV can look pretty good with DVDs and HD video, but standard-def can look lousy. If you watch reality and sports shows, be sure to check the standard-def performance of whatever set you buy. An outboard signal processor may help.

2. Every system has anomalies. If it uses three chips or three colors—as LCoS, LCD and CRT projectors do—there may be fringes where images don't line up perfectly. If it uses a single chip and a fast-rotating color wheel—as DLP generally does—you may see what have come to be known as "rainbows" in scenes with high contrast. And any video geek can expound at length about significant differences in reproduction of dark blacks and bright whites. Once you've decided among projection, flat panel, direct view and front projection, look at models using different technologies. Some may dazzle you; some may merely annoy.

3. Digital TV equipment can be as quirky as a computer. Watch out for incompatibilities that might, for example, keep you from viewing certain DVDs in the proper screen ratio.

4. Remember that home theater audio can easily end up costing more than video. Yamaha showed a $1,500 system that can produce pseudo surround sound from a slim bar full of small speakers that fits right under the screen. But for full surround and deafening explosions, you'll need more power.

Which is where the guys who know how to hide the wires come in. F

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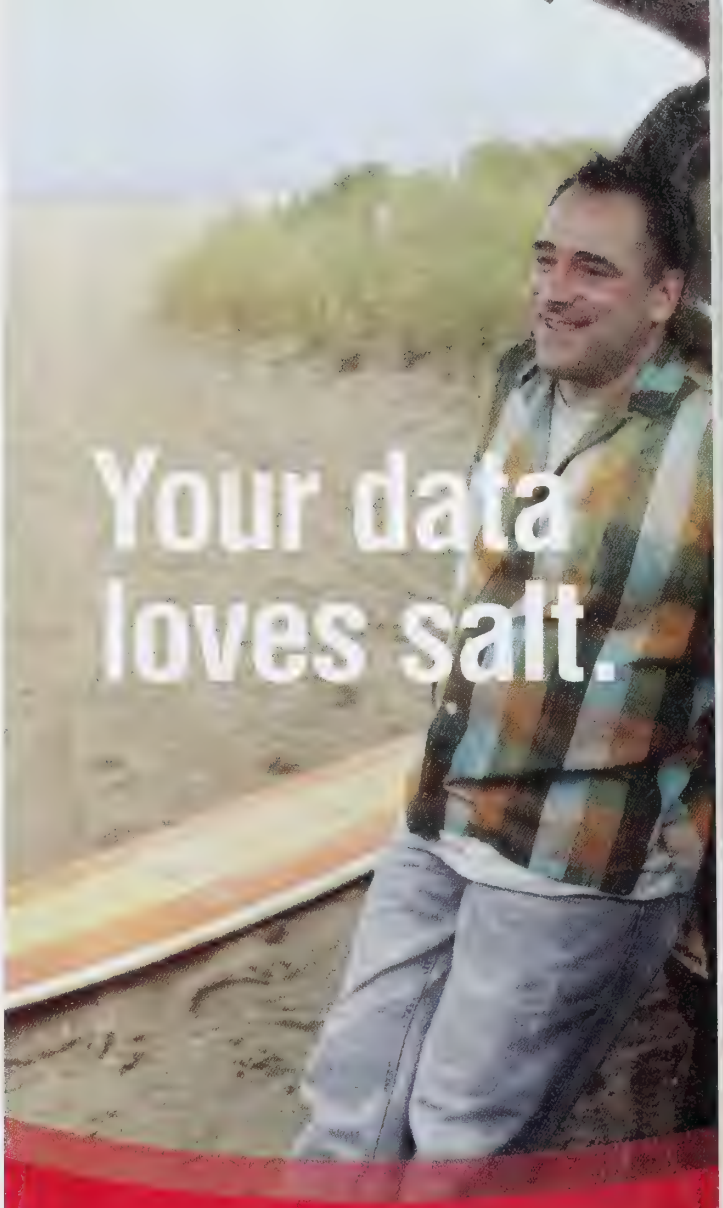
Stephen Manes (steve@cranky.com) was cohost of *Digital Duo* and has been covering technology for two decades. Visit his home page at www.forbes.com/manes.



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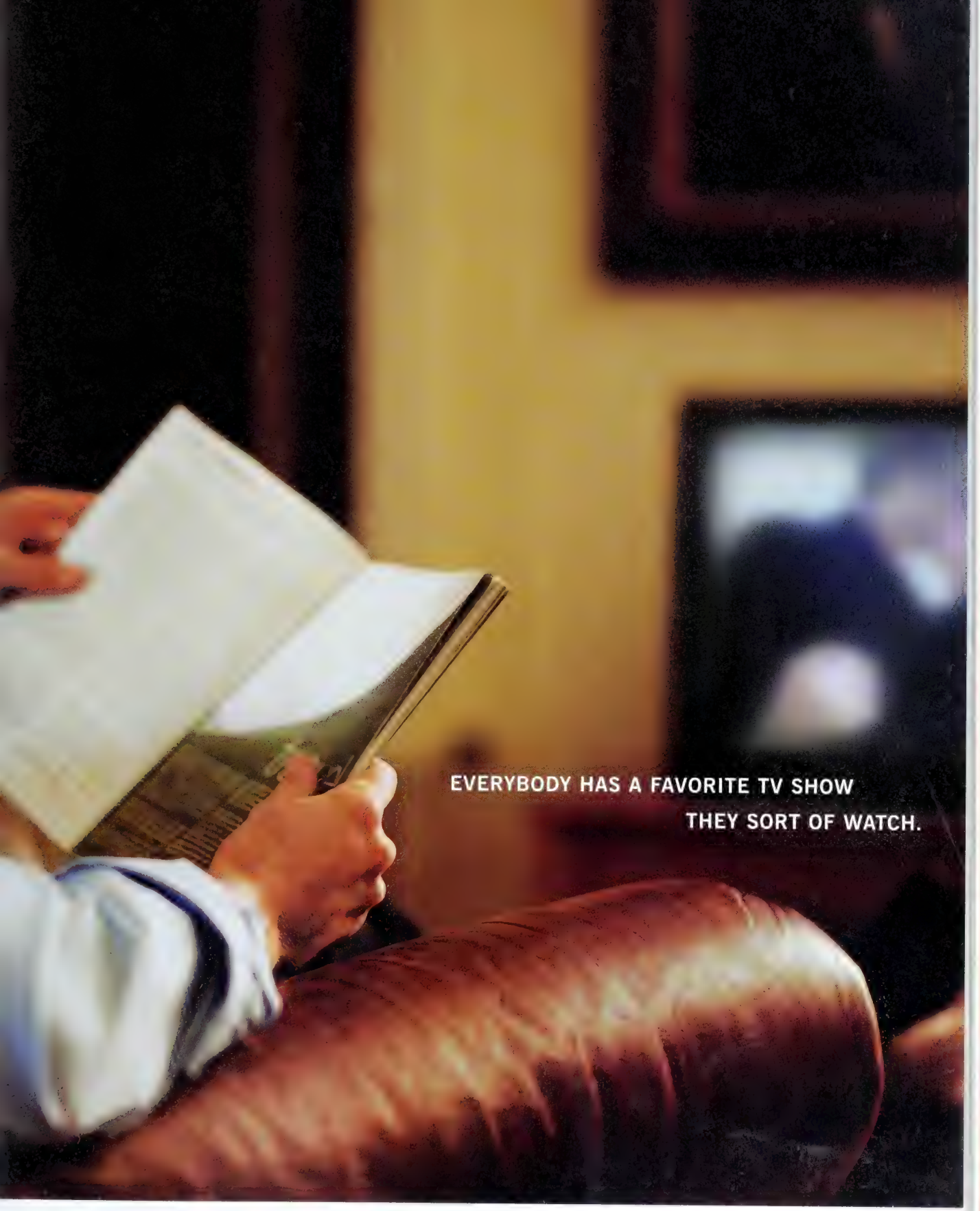
BREAKTHROUGHS

Big Shot in Bangalore

When Kiran Mazumdar-Shaw founded a pioneering biotech company, no one would work for her. Today she's the richest woman in India | By Mary Ellen Egan

KIRAN MAZUMDAR-SHAW should have been afraid. Every day for three months in 1985 she waded through a crowd of angry employees to get to her office at Biocon India, a maker of enzymes in Bangalore. This was her payback for hiring uneducated employees. After they joined a communist labor union, she retaliated by automating the plant. The crowd outside burned her in effigy. "I didn't

"Too rough a job for a woman?" Mazumdar-Shaw.



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think they'd hurt a woman," she says.

But her detractors have certainly tried to hold her back, making it about as tough as possible for a woman to find her way. Still, over the last two decades Mazumdar-Shaw, now 51, has turned a small enzyme manufacturer into one of India's premier tech companies. It netted $30.5 million on revenue of $122 million for the fiscal year ended Mar. 31. Her 40% stake in the company is worth $480 million, making her the richest woman in India.

The daughter of a brewmaster and a stay-at-home mom, Mazumdar-Shaw grew up in a progressive, middle-class family, which encouraged her to pursue an education instead of an arranged marriage. She returned to India in 1975 after getting a B.S. in zoology at the University of Bangalore and an M.S. in brewing from Ballarat College in Australia, expecting to have to fend off job offers. No one would hire her. "It was too rough a job for a woman," she recalls being told.

After consulting for two years, she got lucky after being approached by Leslie Auchincloss, the then owner of Biocon Biochemicals, an Irish specialty chemicals company that had been trying to break into India. Foreign ownership was limited to 30%, and Mazumdar-Shaw seemed an ideal partner. "She was so focused and had such a forceful personality that I knew she could hold her own," recounts Auchincloss. Biocon India started out with $10,000 and a plan to produce enzymes for beer, wine, paper, animal feed and detergents.

It wasn't a glass ceiling that Mazumdar-Shaw ran into but a concrete one. It took her weeks to rent space because landlords thought she wouldn't be good for the rent. She couldn't find anyone willing to work for her, so she begged a female friend to fill in as a secretary. Bankers turned down her request for a $10,000 line of credit; she got the money only after meeting a banker at a friend's wedding. Her first accountant, a man, left as soon as another job opened. By far the worst treatment came from raw-materials vendors who insisted she bring in a male manager if she wanted their wares.

By the late 1980s Biocon India was a profitable concern that was pulling in $1 million a year. Auchincloss sold his 30% interest to Unilever. Mazumdar-Shaw kept her 70% and stayed on, but occasionally chafed under British (and Dutch) rule. "If I wanted to take a certain action, I had to apprise them, then meet with the other managers before I could make a move," she complains. She reclaimed some autonomy by founding Syngene, a drug services research outfit—which provided early-stage development for drug companies—as a separate company.

After India relaxed its foreign ownership rules, Unilever tried and failed to buy Mazumdar-Shaw's stake. In 1997 the food giant sold its specialty chemicals division, which included Biocon, to Imperial Chemical Industries. ICI had no interest in drug research and a year later was willing to let its slice of Biocon go for $2 million, on the condition that it be supplied with enzymes for two years. Mazumdar-Shaw came up with the money by persuading her husband, John Shaw, a former textile executive, to sell his London home and join Biocon. (Now he's in charge of international business development and owns 25% of the stock.)

Newly liberated, Mazumdar-Shaw ventured beyond enzymes into insulin production. In this detour Biocon was reversing the dance steps of the Danish insulin firm Novo and making good use of the fermentation expertise it already had. A huge market was right outside its doors—the 32 million Indians with diabetes. From insulin Mazumdar-Shaw could branch into other drugs for the Indian market; and from India, into the U.S.

The new line of business demanded capital. By this time Mazumdar-Shaw had enough name recognition to be able to raise the cash less painfully: $3 million for a 15% equity share came from ICICI Ventures (no relation to ICI), and $5 million came from banks as loans at 10% to 12% interest. She also put in $3 million from retained earnings. "We bet the bank," she recalls. "If it failed, it would bankrupt the company."

After the 2001 patent expiration on lovastatin, one of the earliest cholesterol blockers, Biocon got permission from Indian regulators to sell the generic in India. That was a warm-up. In 2001 Biocon became the first Indian company to get U.S. Food & Drug Administration permission to sell lovastatin in the U.S. Now it has 50% of the U.S. market for the copycat version.

Not content to be a star in generics, Mazumdar-Shaw now has 600 scientists doing research to develop the company's own patented drugs. Biocon has two compounds in clinical trials in India: a monoclonal antibody to treat head and neck cancers, now in Phase II, and a recombinant insulin, in Phase III. (A second monoclonal antibody to deal with rheumatoid arthritis has yet to go to trial.) Helping to fuel that R&D budget, $16 million a year, is the $70 million Biocon banked when it went public last April.

There will be a flood of money coming in from America, as well. As U.S. drug development costs soar, pharmas are looking to India, where expenses from molecule to market can run 80% less. Partnerships with seven of the largest U.S. and European pharmaceuticals—in drug discovery and clinical trials—now account for 15% of Biocon's top line. F

Running into a concrete, not a glass, ceiling, she couldn't find anyone willing to work for her, so she begged a female friend to fill in.

Forbes
OCTOBER 18, 2004

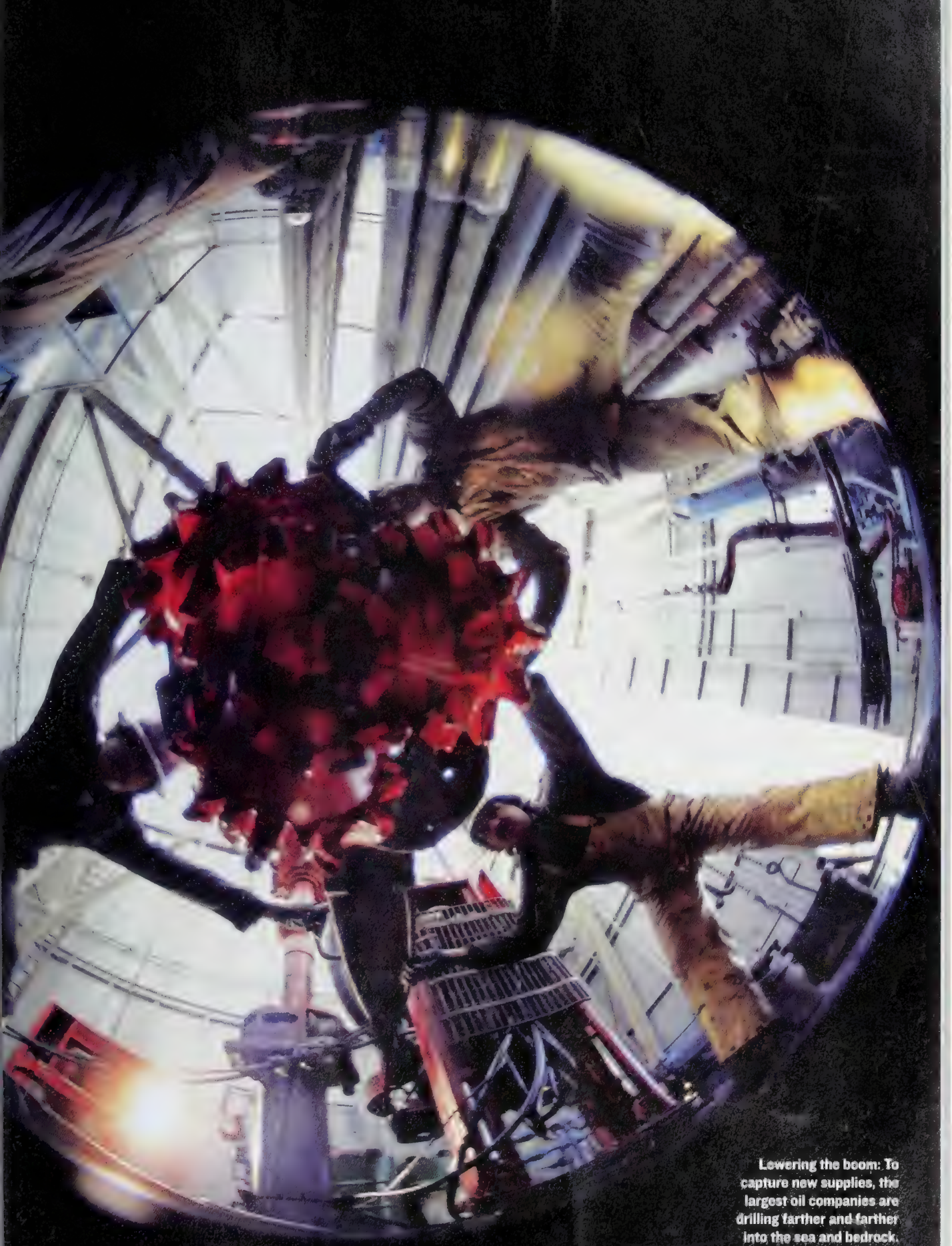
The Big Plunge

High prices at the pump are finally giving oil companies the incentive to make long—and expensive—bets to find new supplies. No one is going deeper than ChevronTexaco.

BY CHRISTOPHER HELMAN

The bad news for oil consumers is that global demand has been growing at 1.5% a year over the past five years, while production capacity has been inching ahead at 0.2%. That squeeze all but wiped out the industry's spare capacity and caused a spike in prices. The good news is that the zooming prices have gotten the attention of oil producers.

Outside the Middle East, West Africa and parts of Russia, most of the easily accessible reservoirs have been sucked nearly dry. Extraction and development costs in North America have rocketed to $11 per barrel from $5 in 1999, and in Europe to



Lowering the boom: To capture new supplies, the largest oil companies are drilling farther and farther into the sea and bedrock.

$18 per barrel from $11 over the same period. New reserves are much tougher to find and must be pried loose from wily dictators or from deposits deep under the ocean bed or in sandpits—and that costs big bucks. "The prospects are few and far between," says Louis Gagliardi, an oil analyst with John S. Herold Inc. in Norwalk, Conn. "Oil companies have to run hard and run fast just to stay in place."

At $20 a barrel, anyway. The prospects for long bets look a whole lot better at $34, which is where the five-year-out futures contracts are settling. "There's plenty of oil, but the costs of developing major new reserves in hard-to-get-to places are 100% higher than a decade ago," says analyst George Gaspar at Robert W. Baird. "High price is the incentive for these guys to step up to the plate." At the right price, there is a lot of oil. The Department of Energy estimates the amount of fluid hydrocarbons remaining in the Earth's crust is the equivalent of 7.6 trillion barrels of oil. That figure includes natural gas and tar sands. It's enough oil and gas to last 170 years.

Until the spike in prices, the Big Five were spending $47 billion a year on exploration and production—and getting less and less per dollar spent. ExxonMobil, the colossus among titans, shells out $12 billion a year on E&P and hasn't been able to grow beyond 4.2 million barrels a day for five years. At the bottom of the heap, ChevronTexaco of San Ramon, Calif. will invest $6.4 billion this year, but will still suffer a 4% decline in production. "I do worry about supply," says David O'Reilly, ChevronTexaco's chief executive. "I see upward pressure on demand in an economically developing world." In China—at 6.3 million barrels a day now the second-largest consumer of oil on the planet after the U.S.—energy use will probably double by 2020, says O'Reilly. Worldwide energy demand, driven by the population growth and industrialization of the developing world, will expand by 40% in the next 20 years.

How to meet that demand? The industry will enjoy estimated net income of $137 billion this year, up from $46 billion five years ago, according to Herold. The producers can easily, even after distributing $80 billion in dividends and share buybacks, afford the anticipated capital spending of $180 billion in each of the next two years. Tectonic shifts are already under way in their portfolios as they move out of declining fields in North America and the North Sea and push deeper into new regions with new technologies.

No one is pushing harder than ChevronTexaco, which is under tremendous pressure to show results. While it earned $10.4 billion on $130 billion in revenue over the last 12 months, its return on capital employed averaged 13% over the last five years, compared with 17% for ExxonMobil, reports Simmons & Co. That weakness is reflected in ChevronTexaco shares, which recently traded at 10.3 times expected 2004 earnings, compared with ExxonMobil's 14.4 and BP's 13.6.

ChevronTexaco is also a runt in terms of reserves, with 12 billion barrels of oil equivalents. ExxonMobil has 22 billion; BP, 18 billion; and Royal Dutch/Shell, even after its embarrassing 20% haircut, 14 billion. Production, at an average 2.6 million BOE (bar-

Going Deep

By the end of the decade deepwater wells will supply 10% of the world's oil. As the technology improves, that number will grow. Drilling through 10,000 feet of water in the Gulf of Mexico—and then through 20,000 feet of bedrock and salt formations to reach an oil reservoir—is fast becoming commonplace to reach those hoped-for big paybacks of black gold.

With the latest fleet of drill ships, up to 2 miles of pipe and drill bit can be assembled on deck and dropped. No anchors needed. Thanks to six 7,000hp thrusters that swivel 360 degrees, the ship can float in a stationary manner, aided by satellite positioning systems and sonar beacons on the ocean floor. Next big challenge: engineering a production platform that can support the weight of the pipes and processing gear needed to bring all that oil to the surface.

JOHN KOOCH FOR FORBES

rels of oil or the natural gas equivalent) a day, is about where it was three years ago at ChevTex.

Still, over the last five years the company has been the most adventuresome—at least by number of exploratory wells drilled—of the Big Five. Eager for a payoff, ChevronTexaco Vice Chairman Peter Robertson vows that production will hit 2 million barrels a day by 2008. "If I don't do this," he says, "I'm fired."

Good luck, says Bear Stearns analyst Frederick Leuffer. That requires annual growth of 3.6%, while Leuffer predicts 2% to 3%. By contrast, he argues, ExxonMobil and Total will increase production 4% a year; BP, 7%.

Squeezed though it is, ChevronTexaco is investing what it can in higher-value ventures. Which is why it is in the process of selling off its interests in 1,100 of 1,500 producing oil and gas fields to raise a hoped-for $5 billion. And where is it putting its chips, an estimated $50 billion, over the next decade?

- Into deepwater drilling, from which 10% of the world's oil supply is expected to come by 2010;
- into the former Soviet Union, which has the greatest collection of liquid hydrocarbons outside the Middle East;
- into heavy oil in Venezuela and tar sands in Canada;
- and into natural gas and the ships to carry it.

ChevronTexaco drilled the deepest well ever last November, in the Gulf of Mexico's Alaminos Canyon area. It was the first well thrusting past more than 10,000 feet of water. After positioning the drill head at the seafloor, the *Discoverer Deep Seas* bored a hole another 4 miles down into the Earth at a cost of more than $50 million. The ship must stay perfectly still while drilling and does so using six thrusters with 15-foot-diameter propellers that can rotate 360 degrees. Linked to GPS devices and sonar positioning beacons on the seafloor, the thrusters can keep the ship in a steady position even in 95mph winds. To power the thrusters and drilling equipment, the ship generates 37 megawatts of power, enough for a city of 35,000. At that depth, a key piece of equipment is the blowout preventer, which weighs up to 300 tons and caps the well, holding back ultrapressurized (15,000 pounds per square inch) oil deep in the Earth.

The Toledo prospect, as it is known, was thought to hold as much as 200 million barrels of oil before it was drilled, and ChevronTexaco hoped to pair it with nearby discoveries by Shell and Unocal and build a shared production platform. But record-setting Toledo turned out to be a costly dry hole, illustrating the fact that even in these days of space-age 3-D seismic studies, wildcatting is still a risky business.

ChevronTexaco has had more success in the Green Canyon region, 100 miles south of Louisiana. There in 2002 it drilled Tahiti (58% owned with partners EnCana and Shell), which has an estimated 500 million barrels of oil and is slated to come on line in 2007. Last year came Tonga, which was drilled in 5,000 feet of water but set a vertical depth record of 31,800 feet. Like Tahiti, its drilling involved piercing an 11,000-foot layer of sedimentary salt.

The world's deepest producing field, in 7,000 feet of water, is a Shell/BP project called Na Kika that uses a 20,000-ton semisubmersible floating platform loosely tethered to the seafloor that's strong enough to hold the weight of 1.5 miles of pipe and the river of oil running through it.

Try to go any deeper, like ill-fated Toledo, and you encounter another problem. "We know how to drill it, but we don't know how to produce it yet," says North American exploration head Raymond Wilcox. No worries,

says his overseas counterpart at ChevronTexaco, George Kirkland. "If we find a 1-billion-barrel field in 10,000 feet of water, we'll move quickly to get any technological gaps filled to make that happen," he insists. "I don't think we're that far off."

A different technical challenge arises in Newfoundland, where ChevronTexaco and its partners paid $500 million for exploration rights to the Orphan Basin region, in the heart of iceberg alley. There it hopes to find at least half a billion barrels of oil, enough to build a platform like ExxonMobil's nearby Hibernia, which can withstand a jostle from a million-ton iceberg. Built in 1997 with 1.2 million tons of concrete and ballast, Hibernia (ChevronTexaco owns 27%) sits on some 700 million barrels, producing 150,000 barrels a day.

Why go to all the trouble? Over the last two years 65% of all new reserves worldwide were found in deep water (depths of 1,200 feet or more). This year such projects will supply some 1.3 billion barrels, or 5% of global oil demand. That will double by 2010, according to a Wood Mackenzie study.

The busiest deepwater region is now in West Africa off the coasts of Nigeria, Angola and Equatorial Guinea. There ChevronTexaco expects to spend some $3.4 billion in the next three years to begin developing fields with more than 1 billion barrels of oil. Among them is the Agbami project, which sits in 4,800 feet of water on 800 million barrels. ChevronTexaco has a majority stake in this field and expects maximum production to hit 250,000 barrels a day soon after startup in 2007.

Russia and its onetime republics pump 13% of the world's oil, 9 million bbl. a day, second to Saudi Arabia.

Russia and its onetime republics pump 13% of the world's oil, 9 million barrels a day, second to Saudi Arabia. While this oil-soaked region has 77 billion barrels of proven reserves, most of this vast landmass is unexplored.

A big reason is political risk. But with huge potential paybacks, most Western oil companies badly want in. BP signed a $6 billion production deal last year with Tyumen Oil Co., or TNK, resulting in a 14% jump in the British oil giant's second-quarter production levels. Recently, ConocoPhillips held the inside track on picking up the Russian government's 8% stake in Lukoil for $1.3 billion or more.

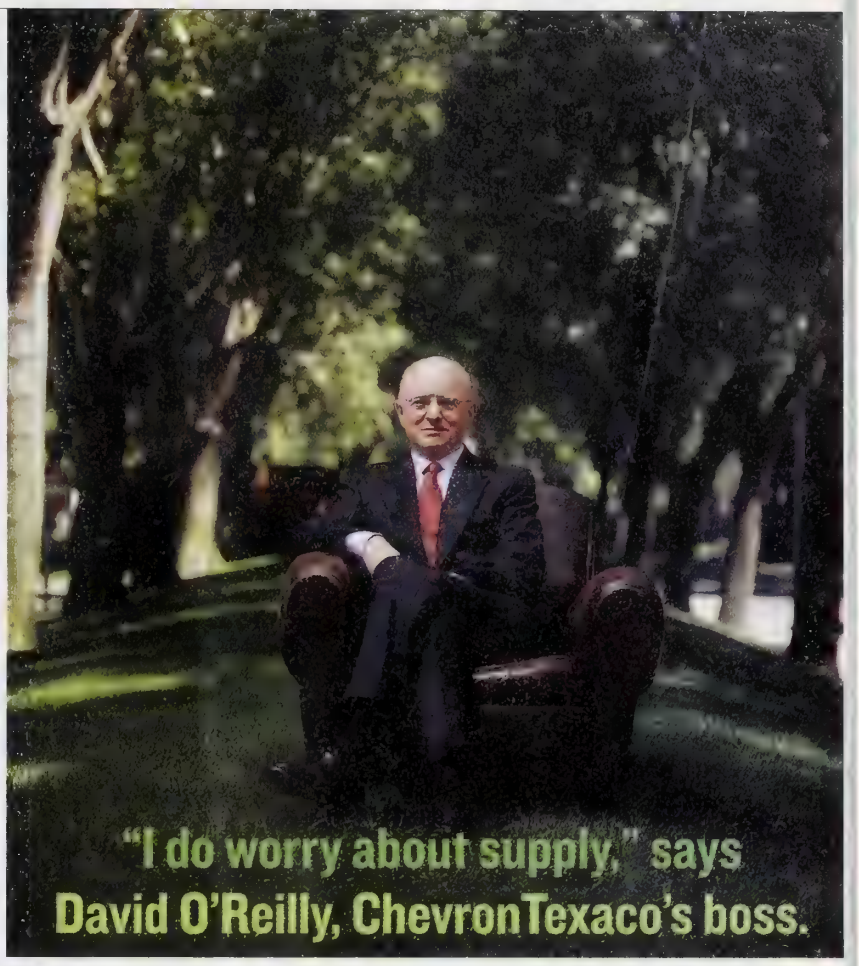
ChevronTexaco, though it has an excellent position in neighboring Kazakhstan, has come up dry in Moscow. A year ago the company was in the running to buy what was rumored to be a 25% stake in Yukos for some $4 billion. Such a deal would have put to rest concerns about ChevronTexaco's short-term production growth. Then came the arrest of billionaire Mikhail Khodorkovsky on a charge of tax fraud. That iced O'Reilly's interest in a deal, compounding an already frustrating year. Months earlier he was thwarted when Moscow revoked ChevronTexaco's right to share in the production of the vast Sakhalin-3 field on the island north of Japan.

O'Reilly hasn't given up. A native of Dublin who started as an engineer at Chevron 36 years ago, he has learned patience. "Russia is one of the places we'd like to have a presence," he says. He traveled to Moscow in early July to meet with the Russian oil minister to discuss a sizable investment over some years. "The long term in Russia looks great, but Yukos puts a lot of fear in me," says George Kirkland, ChevronTexaco's head of overseas exploration. "I don't like that. When will it be a reasonable place to be from a risk perspective? I can't answer that question." He may have to soon. The Russian government recently hired investment bank Dresdner Kleinwort Wasserstein to value the natural gas operations of Yukos with an eye toward putting them up for auction. The Kremlin's recent consolidation of Gazprom and Rosneft into the world's largest energy company will also lure Western investment. (Chevron recently announced an agreement with Gazprom on exploration and exporting projects.)

At least there is plenty going on next door. The Tengiz field in Kazakhstan holds 6 billion to 9 billion barrels of recoverable oil. To get at them, Chevron had to engage in a game of political football, first negotiating with the Soviets in the late 1980s, then, after the fall of the U.S.S.R., with the Nazarbayev government. Since inking a deal in 1993 the company, a 50% owner of TengizChevroil, and its partners have spent more than $10 billion on drilling and infrastructure. In the early days transporting the crude to markets cost $6 a barrel and required thousands of railcars. Now its 280,000 barrel-a-day production of crude moves at $3 a barrel through the 900-mile Caspian pipeline to the Russian Black Sea port of Novorossiysk. ChevronTexaco

has a 15% interest in the pipeline, which will undergo a $2 billion expansion to double its capacity to 1.2 million barrels a day. That should be enough to handle production from an even bigger Kazakh field, Kashagan, which is slated to come on line in 2008.

Transport hasn't been the only problem. Because Tengiz oil is so high in corrosive sulfur compounds, it must be partially refined before going through the pipeline. The sulfur, 5 million tons of it so far, is collected in Atyrau in 25-foot-high slabs with footprints the size of football fields. The city is also host to the world's largest gas-stimulation project in development: 240 million cubic feet of Tengiz natural gas is injected daily into the reservoirs to loosen up oil and boost well pressure. As a result, by 2008 Tengiz production should reach some 800,000 barrel/day (350,000 barrel/day net to ChevronTexaco)—enough to meet 1% of global oil demand.



"I do worry about supply," says David O'Reilly, ChevronTexaco's boss.

Higher prices at the pump have also made extraction from oil sands and heavy oil feasible. ChevronTexaco's primary projects are in Canada and Venezuela, where it thinks there are 2 trillion barrels or more worth of such "unconventional oil" reserves—an amount greater than the world's remaining reserves of conventional crude.

Alberta, Canada is site of the world's largest extraction operations from oil sands, heavy earth laden with bitumen, a hydrocarbon-rich mineral. ChevronTexaco has a 20% interest in the $4 billion Athabasca mine, a Shell-managed project that generates 134,000 barrels of oil a day. At the enormous oil sand strip mine, shovel cranes drop 100-ton loads of sand into 400-ton dump trucks. Extracting the bitumen from the clay and sand and upgrading it into crude oil—by breaking its big hydrocarbon molecules into smaller, less viscous ones—is an expensive, energy-intensive process that consumes 650 cubic feet of natural gas for every barrel. Even after spreading infrastructure costs over an enormous scale and running operations around the clock, a barrel of synthetic crude from oil sands costs $10 or so to produce, compared with $3 for a barrel from the Middle East. Added demands from such operations will stretch Alberta's ability to provide enough natural gas—necessitating new sources of energy.

Heavy oil requires different processing. In Venezuela ChevronTexaco has a 30% stake in the Hamaca project, situated in the 30-billion-barrel Orinoco heavy-oil belt. The stuff comes out in a foamy mousse that can be pumped but must be blended before it can be marketed. In August work was completed on Hamaca's upgrader plant, which will allow production to ramp up to 190,000 barrels a day. Cost per barrel: $13. So far ChevronTexaco and its partners have put more than $3.8 billion into Hamaca. Payback will come slowly; fields in the area are expected to keep producing for more than 30 years. The politically fickle Venezuela has 78 billion barrels of proven reserves of conventional oil and another 260 billion barrels of heavy oil.

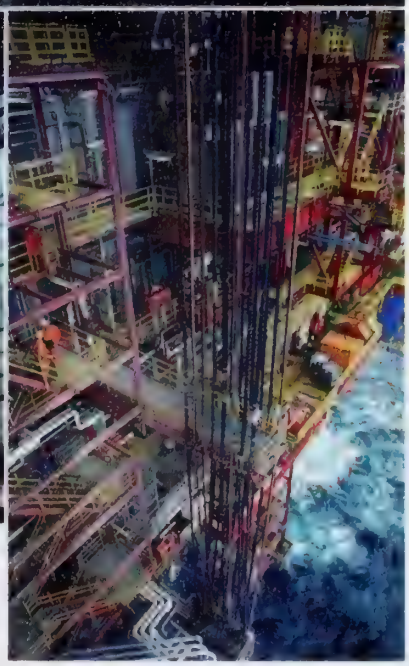
As the easy oil runs out, the big boys have turned to plentiful natural gas. For BP and ExxonMobil, methane already accounts

Restless Giants

The Big Five control 77 billion barrels of proven reserves—enough to satisfy the world for only 2.5 years. To replenish supplies, they must make expensive and longer bets on more difficult prospects.

	Chevron/ Texaco	Total	BP	Royal Dutch/ Shell	Exxon/ Mobil
Proven reserves (bil bbl[1])	12	11	18	14	22
Daily production (mil bbl)	2.5	2.5	3.6	3.9	4.2
Years of reserves	13	12	14	10	14
E&P[2]/Revenues	4.7	5.1	4.0	5.1	5.0
Revenues[3]	$136	$138	$225	$236	$238

[1]Oil and oil equivalent. [2]Exploration and Production. [3]Estimated 2004 ($bil). *Sources: IBES Express via FactSet Research Systems, Value Line; companies.*



A bonanza for the biggest equipment: Going after fossil fuels wherever they are, oil companies rely on giant tankers carrying liquefied natural gas, multistoried production platforms in inhospitable waters and heavy trucks to transport tons of oil sands.

for 45% of hydrocarbon production and within perhaps a decade will surpass oil. With just 27% of its production from gas, ChevronTexaco is a laggard. The problem with gas is the difficulty of moving it across the ocean. That calls for a tanker that can handle liquefied natural gas, and a port whose neighbors can tolerate the sight of these ships.

For resource-hungry countries like Japan, Taiwan and South Korea, 95% of the gas is LNG. The U.S. gets 2% that way. Just four receiving terminals are in operation here. Public fears of harborside LNG fireballs have already derailed a half-dozen of the more than 20 receiving terminals proposed for the U.S. John Cogan, head of the LNG practice at Houston law firm Akin, Gump & Strauss, predicts that five terminals will be built in the next decade, "most likely in Louisiana and Texas, where people are comfortable with the idea of energy infrastructure."

We'll need a lot more than that. After decades of predicted supply shortfalls that never came, the U.S. is now unable to meet demand, and imports 18% of the 24 trillion cubic feet consumed a year. With domestic fields showing production declines the last two years despite an increase in wells drilled, that supply gap will only grow. Public resistance to receiving terminals helps keep gas prices high—$6 per million Btu, triple what they were in 1999. This gets O'Reilly exercised. "We need to provide permits for LNG import terminals," he says. Without them the resulting high price of natural gas, he says, will doom entire industries—aluminum, fertilizers, chemicals.

How does ChevronTexaco get round the angry neighbors? By heading 40 miles south of Louisiana into the Gulf of Mexico, where it gained approval to build the $600 million Port Pelican terminal. Tankers will disgorge LNG there into 6.9-billion-cubic-feet storage tanks that regasify and shoot 1.6 billion cubic feet a day via pipeline to Louisiana's Henry Hub, from which 13 large pipelines spoke out. Port Pelican could take its first shipments as early as 2007. A second proposal for a terminal on Mexico's Baja peninsula is a long shot for now.

ChevronTexaco produces 4.3 billion cubic feet of gas a day (equal to 720,000 barrels of oil). Half is from the U.S., but the brightest prospects lie elsewhere. As in a gas-to-liquids project at the world's biggest field (900 trillion cubic feet) in Qatar. Off the northwest coast of Australia lies the Gorgon field, where the company holds a controlling stake. Gorgon is thought to contain 10.9 tcf of gas (equivalent to 1.8 billion barrels of oil); nearby are fields holding another 30 tcf. Over the next decade ChevronTexaco plans to spend $11 billion to tap Gorgon and neighboring fields.

Gorgon's riches were discovered 24 years ago but never developed because there was no ready market. The price of gas wasn't high enough to pay for the LNG tankers. Now it is. China last year signed a $25 billion contract with a group developing a second Australian gas field (in which ChevronTexaco has a 17% stake) to take 150 billion cubic feet of LNG a year for 20 years.

"Five years ago no one ever thought of taking Gorgon LNG to North America," says John Gass, the aptly named president of ChevronTexaco's global gas division. These days he's drawing up plans to do just that.

It's preposterous to say that the world is running out of energy. It is only running out of cheap energy. There's plenty of the expensive stuff. F

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Can the Pony Ride Again?

REMEMBER 1965? WE HAD VIETNAM AND WATTS, FREE love, Vatican II, the Beatles, Joan Baez. And we had the Mustang. Back then cars were really important, and the Ford 1965 Mustang, introduced at the New York World's Fair in April 1964, created a wave of car excitement in America never seen before or since. The Mustang and its evangelist, Lee Iacocca, were on the covers of *Time* and *Newsweek* the same week.

Mustang made Iacocca the most famous executive in America. Later he was president of Ford and then savior of Chrysler, but above all, he was the Mustang man.

Mustang had a personality. It wasn't "longer, lower, wider," the Detroit mantra back then. It had no tail fins. It was no Grand Prix racer, and it couldn't carry six bags of fertilizer for the new lawn.

Iacocca had discovered a great secret. We wanted our cars to be fun. They didn't have to be perfect. They just had to be fun, and the Mustang brought fun back to the American street.

Ford sold 542,000 through the end of 1965. Only the big pickups sell more today. Other pony cars came and went: Chevy's Camaro and Pontiac Firebird, the Plymouth Barracuda and American Motors' Javelin, but nothing—from Detroit or Japan or Germany—ever caught Mustang.

Eventually Ford mucked it up. There were fat Mustangs and even ugly Mustangs. Once Ford executives tried to kill the pony, and an honest-to-God citizens' revolt forced them to keep it.

Now here comes a new Mustang, available mid-October. I was told that on the first day design chief J Mays gathered his staff, someone suggested a research effort to find out what to build. And Mays said something like, "No studies. If we don't know what a Mustang is, we should be working someplace else."

The new Mustang looks like a Mustang. It's got two terrific new engines, a six-cylinder with 210 horsepower and a V-8 with 300, and they both go like stink. The interior is lots better than the old one.

Problems? Well, I think the interior and the dash should have used more color, and the instruments are really hard to see in bright sunlight.

But the real threat to Mustang's future success is the conflict between the buyers and the builders. The Mustang is a "girl's car." Most Mustangs had six cylinders, and many buyers have been women. Why? Because it was a good-looking car for not much money, and young women had good taste and not much money. But the boys who built it wanted it hot, with bigger V-8s and more speed. They called the car the Boss, the Cobra, the Mach 1. More weight and cost chased away the customers who bought the car.

Could it happen again? Absolutely. The designers can't wait to turn up the power.

At least Iacocca knew he needed a low price—$2,368 was the base. The new 2005 Mustang starts at $19,410 for the V-6 coupe at 210hp (the '65 had 101). The V-8, with 300hp, starts at $25,000, and you can run it up to $30,000 with extras. These are reasonable base prices, too, but Ford has to be careful it doesn't fill the dealers' lots with option-laden models that cost too much and turn off potential customers. (That's what Chrysler did initially with its Pacifica.)

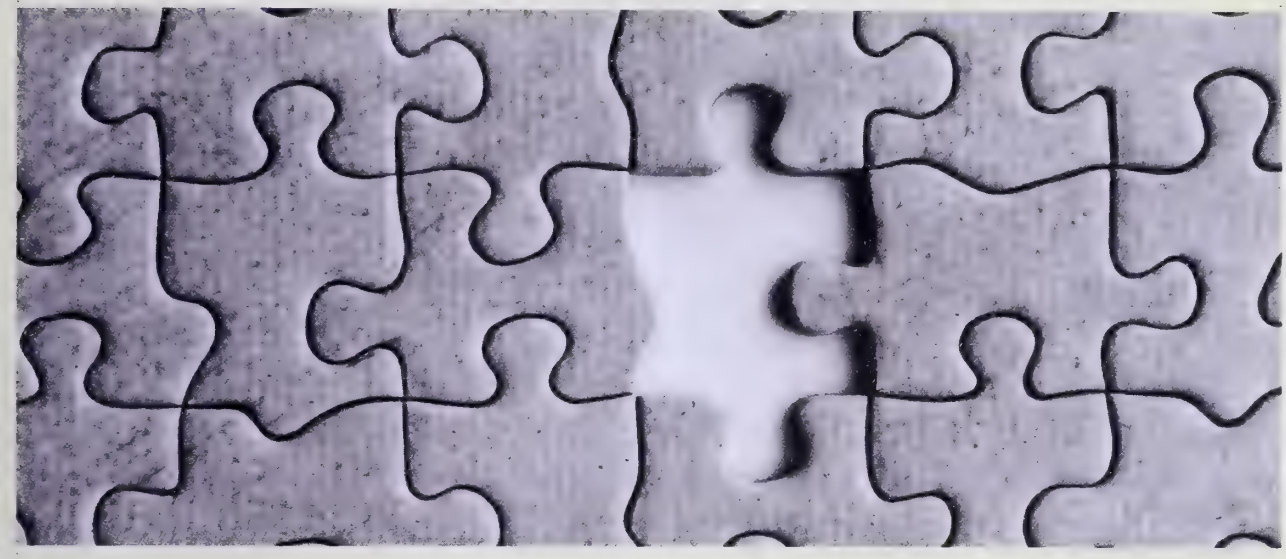
So how many will Ford sell? Not as many as in 1965, but more than the 140,000 sold last year. They are built in a factory just outside Dearborn, Mich. that also makes Mazdas. So figure 150,000 Mustangs can be built on two shifts with no overtime. Ford could probably sell 200,000 if it can build them.

The beginning paragraph of that *Time* magazine cover story 40 years ago told of Iacocca rolling through suburban Detroit in an unmarked preproduction model. But people knew what it was. The driver of a Volkswagen gave it the V-for-victory sign. The driver of a Chevy Impala pulled up and mouthed through closed windows, "Is that it?" The white car approached a school bus, the windows flew up, and the children inside chanted "Mustang! Mustang! Mustang!"

Well, this isn't 1964, and we don't get that excited about cars anymore. But this new one is a Mustang for sure, and it might just be the car that makes driving fun again. One more thing: This pony isn't German or Japanese. It's pure Detroit. F

Forbes.com | Jerry Flint, a former Forbes Senior Editor, has covered the automobile industry since 1958. Visit his home page at www.forbes.com/flint.

WE MAKE OURSELVES HEARD NOT
WITH THE LEVEL OF OUR VOICE,



BUT THE QUALITY OF OUR INSIGHT.

Expertise. It's what we're all about. We pride ourselves on approaching each situation with a determination to uncover not just *a* solution, but *the* solution. It is why some of the world's leading governments, corporations and institutions tap us to solve their most complex challenges.

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Corporate Governance Challenge

INITIATIVES FOR A TRANSPARENT, COMPLIANT – AND SUCCESSFUL – ENTERPRISE

Produced by Bob Grossman
Written by Jerry Bowles

IN RESPONSE TO CORPORATE SCANDALS LIKE ENRON AND WORLDCOM, CONGRESS PASSED THE U.S. PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002. MORE COMMONLY KNOWN AS THE SARBANES-OXLEY ACT, THIS IS THE MOST SWEEPING REGULATORY REFORM OF PUBLICLY TRADED MARKETS SINCE THE SECURITIES AND EXCHANGE ACT OF 1934. THE LAW ESTABLISHED THE FRAMEWORK FOR MANY COMPLEX, NEW REGULATIONS, INCLUDING PUBLIC DISCLOSURE OF FINANCIAL RESULTS, ASSIGNMENT OF CORPORATE ACCOUNTABILITY AND INDEPENDENCE OF COMPANY DIRECTORS.

Make every employee a CFO.

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The first phase of Sarbanes-Oxley (Sarbox) compliance — Section 302 — requiring CEOs and CFOs to certify the accuracy of quarterly and annual SEC statements and disclosures is relatively simple. It requires few information technology upgrades and minimal changes to business processes. However, the next phases of Sarbox compliance will be much more difficult and expensive and require significant changes in the architecture that supports decision making.

Industry experts expect that Section 409, which requires real-time reporting of a company's materially significant events, will have a significant effect on the IT architecture that supports analytics — with the requirement for rapid identification of events and assessment of financial impact.

Section 404, the provision for the assessment of a company's internal controls, which will go into effect on November 15, 2004, requires chief financial officers and financial managers to file an internal-control report along with each annual report which certifies that a company's management is responsible for establishing and maintaining an adequate internal-control structure and procedures for financial reporting.

A July 2004 survey by Financial Executives International reconfirms that the costs for compliance with Section 404 have been running almost double what companies anticipated in January 2004: Companies with revenues over $5 billion almost doubled their "year one" costs for 404 compliance, from $4.6 million to over $8 million. In a February 2004 report entitled "Planning for a Sustainable Active Compliance Architecture," based on detailed survey results from more than 70 companies, AMR Research estimates that companies will spend a total of $5.5 billion on Sarbanes-Oxley Act activities, technology and consulting in 2004 alone, with significant follow-on expenditures in 2005 and beyond.

PeopleSoft Internal Controls Enforcer Drives Compliance

To meet the new internal controls requirements of Sarbanes-Oxley, companies are looking beyond the documentation and workflow solutions they used to address the first phase of compliance and toward solutions that address the longer-term problem of automating and enforcing internal controls.

Industry leader PeopleSoft, which already has more than 650 customers standardizing on its suite of Financial Management solutions for addressing corporate governance, is the first to offer a long-term solution to address the latest Sarbanes-Oxley requirements. PeopleSoft Internal Controls Enforcer moves beyond simple documentation of internal-control processes and delivers an enterprise solution that enables companies to monitor key controls, proactively alert management to changes and enforce accountability across all levels of the organization. PeopleSoft worked closely with a compliance customer advisory group including MetLife and Toyota, in developing the new solution.

"As companies enter the enforcement phase of Sarbanes-Oxley they need tools to automate key processes required for long-term compliance," says Kathleen Wilhide, director for Financial Compliance Applications at IDC Research. "PeopleSoft's Internal Controls Enforcer provides the monitoring and diagnostics to ease this customer burden. And because PeopleSoft built the Internal Controls Enforcer on an open platform, it provides a cost-effective solution that can support multiple ERP environments and control frameworks."

"WITHOUT A SYSTEMIZED APPROACH, FACTORS SUCH AS HUMAN ERROR, EMPLOYEE CHANGES AND SYSTEM FAILURE INCREASE THE RISK AND COST OF COMPLIANCE WITH SARBANES-OXLEY. PEOPLESOFT INTERNAL CONTROLS ENFORCER ENABLES COMPANIES TO AUTOMATE INTERNAL CONTROLS AND DRIVES ACCOUNTABILITY THROUGHOUT THE ORGANIZATION, EASING THE COMPLIANCE BURDEN FOR CFOS."

RENEE LORTON, SENIOR VICE PRESIDENT AND GENERAL MANAGER, PEOPLESOFT FINANCIAL MANAGEMENT

Among the features of PeopleSoft's Internal Controls Enforcer are prebuilt diagnostics that continuously monitor controls and alert management to changes in transaction systems; personalized dashboards that provide real-time visibility into the status of internal control testing and risk exposure; and a single document repository and process automation to streamline ongoing compliance. The repository consolidates information related to business processes, including policies and procedures, business process narratives, risk libraries, process maps and benchmark metrics.

"Without a systemized approach, factors such as human error, employee changes and system failure increase the risk and cost of compliance with Sarbanes-Oxley," says Renee Lorton, senior vice president and general manager, PeopleSoft Financial Management. "PeopleSoft Internal Controls Enforcer enables companies to automate internal controls and drives accountability throughout the organization, easing the compliance burden for CFOs."

LRN

IRREPARABLE DAMAGE TO YOUR REPUTATION

The LRN integrated compliance platform, GEMS™ (Governance and Ethics Management System™) enables you to actively oversee global governance responsibilities and manage localized risks. GEMS puts you in control of the big picture, the little picture and everything in between.

For more information about LRN contact us by phone at 800.529.6366 or visit us at www.lrn.com/GEMS

In addition to PeopleSoft's Internal Controls Enforcer, the company offers PeopleSoft Global Consolidations to help corporations meet new SEC accelerated reporting deadlines. PeopleSoft Enterprise Investor Portal uses prepackaged templates and auditable processes to facilitate the executive certification requirements of Sarbanes-Oxley Act Section 302 and the publishing of SEC financial reports. PeopleSoft Enterprise CFO Portal uses personalized operational and financial alerts to provide the foundation for meeting real-time disclosure requirements under Section 409 of the Sarbanes-Oxley Act.

"The aftershocks of Sarbanes-Oxley are creating the next phase of compliance, and PeopleSoft is the first out of the gate to provide solutions to address these new regulatory issues," Lorton says. "PeopleSoft Internal Controls Enforcer will help companies prove, on an ongoing basis, that their internal controls are enforced. The combination of Enforcer and the best practices embedded in PeopleSoft's Financial Management solutions can drive down the ongoing cost of compliance and dramatically reduce risk across the enterprise."

The LRN Approach – Ethics as a Foundational Business Process

Some executives grumble that the new Sarbanes-Oxley requirements are simply another layer of regulations and an added expense of doing business. For LRN, the Los Angeles-based provider of legal, compliance and ethics online education and corporate governance solutions, that kind of thinking misses a great opportunity: good ethics drive business performance.

Compliance alone tends to focus companies on avoiding millions in fines and penalties (i.e., hits to their P&Ls). But in the new world we live and work in — where accusations of impropriety, rumor and innuendo have cost companies billions in market capitalization, even before legal guilt, if ever, is established — companies are increasingly managing to their balance sheets, not just their profit and loss statements. They are focusing on protecting and strengthening their reputations, which, in turn, focuses them on ethics.

"Compliance is an outcome of an ethical corporate culture, not simply a series of edicts issued by a company along with an enforcement mechanism," says Dov Seidman, LRN founder, chairman and chief executive officer. "The failures of corporate responsibility that led to the recent scandals were, at their core, not only failures of legal compliance, but more profoundly and fundamentally, failures to do the rig thing." There is growing e dence that when emplo ees come to understar the rationales, the ethic underpinnings and the sp it of the law, they are mo inspired to follow it.

"COMPLIANCE IS AN OUTCOME OF AN ETHICAL CORPORATE CULTURE, NOT SIMPLY A SERIES OF EDICTS ISSUED BY A COMPANY ALONG WITH AN ENFORCEMENT MECHANISM. THE FAILURES OF CORPORATE RESPONSIBILITY THAT LED TO THE RECENT SCANDALS WERE, AT THEIR CORE, NOT ONLY FAILURES OF LEGAL COMPLIANCE, BUT MORE PROFOUNDLY AND FUNDAMENTALLY, FAILURES TO DO THE RIGHT THING."

DOV SEIDMAN, FOUNDER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, LRN

Seidman has been a lea ing proponent of buildi strong, ethically inspired co porate cultures and respo sible corporate governan conduct and controls sin long before Enron ("B.E. In addition to a degr from Harvard Law Scho Seidman holds bachelo and masters degrees philosophy from UCLA a a degree in Philosoph Politics and Economi from Oxford University.

The LRN message clearly resonates with companies th have long-standing commitments to upholding the highe standards of corporate responsibility. Millions of employees more than 120 of the world's leading corporations (includi 20% of the Forbes 100) use LRN's solutions daily. Its custom list includes such well-known giants as Disney, DuPo Honeywell, Procter & Gamble and Raytheon.

LRN provides complete online education solutions and rela ed tools, including certification, survey and tracking, and fac tates opportunities for its community of customers to meet a share best practices. The LRN Legal Compliance and Ethi Center™ (LCEC™) was the first Web-based solution to deliv customized education in workplace law, compliance and ethi directly to employees' desktops. LCEC offers more than 2 courses covering more than 3,600 separate subjects in mo than 20 languages, delivered to companies ranging from 5 employees to 500,000. As a whole, the system supports ov 80 custom codes of conduct in 15 languages. LRN custome have completed over 4 million courses on the LRN system.

Over the past year, LRN collaborated with a charter grou of leading companies to create a new integrated complian platform called the Governance and Ethics Manageme

System™ (GEMS™). This comprehensive diagnostic solution llows businesses to assess the overall health of their com-liance and governance efforts through timely, accurate and onsistent reporting and management and oversight. The olution allows enterprises to examine, review, reinforce and, where necessary, fix ethics and compliance lapses.

LRN also continues to provide its original service — Expert egal Research and Analysis (ELRA) — meeting the specific eeds of customers efficiently and at a fixed price using a etwork of the world's leading legal professionals.

"Over time, vigilant, strong corporate cultures can become elf-governing," continues Seidman. After all, corporations are nerely legal fictions or abstractions; at their essence, corpora-ons are communities of human beings held together by a set f values, norms and standards passed from one generation to he next that govern how people make decisions and determine ourses of action. LRN helps foster corporate cultures where ompliance results from higher standards of conduct and esponsible governance." ■

Web Directory

LRN
www.lrn.com

Movaris
www.movaris.com/forbes.htm

PeopleSoft
www.peoplesoft.com

Sarbanes-Oxley: The Finance Governance Challenge

Eric Keller
Chief Executive Officer
Movaris

WE'VE ASKED ERIC KELLER, WHO HAS SERVED FOR MANY YEARS AS A PUBLIC COMPANY CHIEF FINANCIAL OFFICER, AS AN AUDIT COMMITTEE CHAIR AND NOW AS THE CHIEF EXECUTIVE OFFICER OF MOVARIS, TO DISCUSS GOVERNANCE IN FINANCE.

hat is causing the high cost of ompliance with these new regula-ons? Is this a sign that companies e out of control?

o. Most companies were practicing ood control long before Sarbanes-xley. What is taking time and effort is ocumenting the control environment, andardizing and testing throughout e company, resolving exceptions and forcing compliance on a daily basis.

Isn't this really just like a Y2K project?

Only if you believe that your company will not have any changes after the first year. Sarbanes-Oxley requires companies to maintain effective internal controls as their businesses grow. We need to face the fact that it's here to stay.

Can technology help?

In many ways, yes. Advanced technology not only serves as a repository for all control-related information, it also serves as an excellent mechanism for communicating and enforcing compliance requirements, detecting and escalating issues through resolution, and delivering control information to decision makers. Technology can also manage certification letters from all management levels, backing up the executives who have to attest to the numbers.

What's the best way to tackle the challenge?

Two things. First, hire and train good people. Second, use systems and technology that can support the entire compliance cycle, from definition, to testing, to issue detection and resolution, to final attestation.

What's the biggest mistake a company can make?

Mistaking compliance for the real goal: improved confidence among investors, managers and board members, that financial statements are complete, timely and accurate, with no surprises or restatements.

MOVARIS

www.movaris.com/forbes.htm

Gee, Thanks Dad

LOWRY MAYS BUILT CLEAR CHANNEL INTO THE EVIL EMPIRE OF RADIO AND ENTERTAINMENT. NOW HIS SON HAS TO MAKE NICE.

BY BRETT PULLEY

L. Lowry Mays is a Texan's Texan, rock-ribbed, 6 foot 2 and larger than life. He started out as an investment banker; in 1972, when a client he was advising backed out of a deal to buy an FM radio station in San Antonio, Tex., Mays partnered with a pal and did the deal himself, paying $125,000. In the three decades since, he has built one of the largest and most powerful media companies in the nation, Clear Channel, a much-maligned giant that, in the view of its enemies, is just too damned big for anyone else's good.

Its tentacles stretch into myriad reaches of media and pop culture. Clear Channel owns 1,202 radio stations in 49 states, more than any other company; each week it reaches 100 million listeners, one-third more than its closest rival (Viacom). It also owns 36 TV stations and the world's biggest outdoor-advertising company, with 770,000 billboards, 150,000 of them in the U.S. that can be seen by 56% of the country's adults in a day. It controls 105 live-entertainment venues, hosting 32,000 performances each year and drawing 70 million people. In the first half of this year Clear Channel sold nearly 10 million concert tickets, more than three times the gate of any competitor. Many of those gigs were booked by the largest concert promotions firm in the U.S., a Clear Channel unit.

"They are the poster child for the evils of media consolidation," says Jonathan Rintels, who heads the Center for Creative Voices in

EVAN KAFKA FOR FORBES

Fortunate son: Mark Mays.

Media in Washington, D.C. Adds Jay Rosenthal, counsel for the Recording Artists' Coalition, which lobbies against the company: "Clear Channel owns so many radio stations and concert venues that artists are constantly fearful of it." Senator John McCain (R–Ariz.), the popular populist, filed a bill that would force Clear Channel to break apart some of its businesses.

Clear Channel today employs 61,500 people in 65 countries. It has enriched shareholders with dreamy returns—the stock is up 71-fold in 20 years, compared with a sixfold rise in the S&P 500 in the same period. Along the way Mays, 69, has amassed a fortune of more than $1 billion, vast cattle ranches in his home state and a circle of friends that includes former President George H.W. Bush. The patriarch's presence is so imposing that even Mays' 14 grandchildren call him Chief.

But a few months ago Lowry Mays almost lost it all. On the morning of Apr. 30 he awoke with a numbing sensation and was rushed to the hospital. A blood clot had formed, swelling his brain, numbing his left side and forcing him to undergo emergency surgery. Only recently has he begun to make public appearances. He is in rehabilitative therapy, using a wheelchair and struggling to regain movement.

Lowry Mays spent years grooming his two sons, Mark, 41, and Randall, 39, to run the family business someday (never mind that Clear Channel went public in 1984 and that the Mays clan owns only a 7.8% stake). In high school and college the boys spent their summers doing construction work at the company's stations in San Antonio.

Now that day has come, earlier and in a most unwanted way. Since his father took ill, Mark has been acting chief executive of the company, which has $9 billion in annual sales and a market value of $29 billion. The Clear Channel board—a 10-member body friendly to Lowry—may soon make the setup permanent. "I don't look at this as taking over from Lowry," says Mark, ever the loyal son. "I think it's a natural evolution."

Yet Mark Mays may end up wondering why he ever wanted this job. Lowry had all the fun building this empire. Now, just as Clear Channel is finding growth harder to come by, the son must manage what the father has built. It can't acquire many more stations because it's bumping up against ownership caps in most of the nation's biggest markets. In the top ten radio markets, where Clear Channel can legally own 80 stations, it owns 69. Its stock price lately reflects that: At $32, it is down 30% since January and far below its $95 peak in 2000.

Mark Mays must find other ways for Clear Channel to grow,

Powering Up

1972

Lowry Mays and Red McCombs buy KEEZ-FM (now KAJA-FM) in San Antonio, Tex. for $125,000. Three years later they acquire nearby WOAI-AM. It is a designated "clear channel" station, meaning it has its own nationwide frequency. They adopt the name.

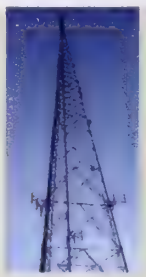
Lowry Mays

April 1984

Company goes public on the Nasdaq. Price at closing on first day of trading: 43 cents (split adjusted).

January 1996

Congress passes landmark Telecommunications Act, raising ownership limits on radio stations. In large markets limits go from four stations to eight.



April 1997

Pays $1.15 billion for Eller Media's 50,000 nationwide billboards.

December 1997

Buys Paxson Communications for $629 million; includes 43 stations and 348 billboards.

April 1998

Pays $1.7 billion to acquire Universal Outdoor's 34,000 displays in 23 markets.

even as he counters accusations of anticompetitive behavior. He also must live up to his father's storied reputation. "The Street may not be as confident in his son's ability," warns Kit Spring, an analyst at Stifel Nicolaus. "Lowry's strength was doing the big deals. He was an outstanding leader who created a lot of shareholder value."

Lowry Mays never feigned much interest in radio itself, or its listeners, musical styles or editorial views. He had no pretense: He bought radio stations to sell ads. "I'm in the business of selling automobiles and tamales," he told FORBES in 1997. He was born in Houston and raised in Dallas, the older of two children. His father, a steel company executive, died when Lowry was 12; his mother was a real estate agent. Lowry graduated in 1957 from Texas A&M University with a degree in petroleum engineering. After serving in the Air Force he received an M.B.A. from Harvard in 1962 and went to work as an investment banker in Texas. In 1972 came the first radio deal, with his partner, B.J. (Red) McCombs, an auto dealer.

McCombs focused on cars, became a billionaire and bought the Minnesota Vikings; he still owns the team and a 1.8% stake in Clear Channel, making him the third-largest individual holder after the Mays family and Dallas radio investor Thomas O. Hicks. Mays, meanwhile, started buying up distressed stations, doubling the sales forces and heavily promoting each outlet on roadside billboards (which he didn't yet own), in newspapers and on TV stations. "Lowry ran a straightforward company from the beginning," says McCombs.

Mays used a folksy, backslapping style and Clear Channel's surging stock to buy up a string of struggling companies, finishing with a flurry of big deals after Congress eased ownership limits in 1996. Previously a company could only own two AM and two FM stations in the largest markets and at most 40 nationwide; now it could own up to eight in one market, with no cap on the nationwide total. "Because of the former caps on ownership, there was never a natural evolution in radio like in other businesses," Mark Mays says. "Then all of a sudden the changes were dramatic. It shook people up."

At year-end 1996 Clear Channel owned 101 U.S. stations and had $352 million in revenue. Three years later it had grown to 557 stations, 555,000 billboards and $2.7 billion in sales. Since 1999 it has more than doubled operating earnings to $2.3 billion (before interest, taxes and depreciation). Key to this were two big deals that closed in August 2000: $2.4 billion for Thomas Hicks' larger Dallas rival, AMFM, with 443 stations in 100 markets; and a $4.4 billion deal to buy SFX Entertainment and push into live entertainment, concert halls and talent management.

Lowry Mays' two sons were deeply involved in those crowning acquisitions. Mark, third-born of four children (one of his two sisters also works at Clear Channel), got an M.B.A. at Columbia in 1989, started out as an investment banker—just like Dad—and joined Clear Channel that same year as treasurer. Randall, the youngest, graduated from Harvard's business school in 1991, worked as an investment banker at Goldman Sachs and signed on to the family business in 1992, starting as treasurer, as his brother had.

Upon entering the company Mark and Randall stopped calling their father Dad and began addressing him as Lowry at work. The two sons were treated as equals inside the company. (In 2003 they had identical compensation: $1.7 million in salary and bonus and $915,000 in restricted stock.) But Randall settled into the role of chief financial officer, leaving his more outgoing older brother as heir apparent. "One of Mark's greatest strengths is he has great people skills," Randall says. "He's the best person for the job."

The older brother's most important task will be to find new sources of growth—from within. Clear Channel has taken what was once a struggling business—full of poorly funded stations, broken equipment, offbeat characters and scant profits—and turned it into a beacon of predictability. On-air hosts are creamy-

"WHEN YOU'VE GOT MULTIPLE STATIONS ... THERE'S ENERGY, THERE'S SHARING. THERE'S A VIBE THAT HAPPENS. IT'S REALLY POWERFUL."

John Hogan, president, Clear Channel Radio

LIMBAUGH: VAUGHN YOUTZ / ZUMA PRESS; JORDAN: ANTHONY J. CAUSI / WIREIMAGE.COM

August 1998

Moves into Europe, paying $765 million for More Group's 90,000 billboards in 22 countries.

Rush Limbaugh

May 1999

Pays $4.4 billion for Jacor Communications. Includes 230 stations and syndicated hits, the *Rush Limbaugh Show* and the *Dr. Laura Show*.

August 2000

Acquires SFX Entertainment for $4.4 billion. Includes 120 live venues and a sports management company representing 650 pro athletes including Michael Jordan and Greg Norman.

August 2000

Buys AMFM for $2.4 billion. Includes 443 radio stations in 100 markets.

June 2002

Buys Ackerley Group's 6,000 outdoor displays, 16 TV stations and 4 radio stations for $495 million.

Michael Jordan

April 2004

Lowry Mays stricken with a blood clot in his brain. His son Mark takes over.

smooth vanilla, music playlists are exhaustively market-tested and the unconventional is rarely tolerated.

Inside this empempire the Mayses have created something as rare as a unicorn: synergy. Company billboards promote the radio stations, which promote the concert tours, which are managed by the in-house promotions firm and play at company-owned or operated venues, where still more billboards beckon. This lets Clear Channel flood the zone. For recording star Madonna's recent 18-city Re-Invention tour, Clear Channel Entertainment booked and promoted the entire act, enlisting its sibling radio stations to provide on-air hype in each market the singer visited. When Clear Channel negotiated its current deal giving Coca-Cola exclusive pouring rights at 29 of its amphitheaters, it also sold it a network of billboards around the country. Estée Lauder, the cosmetics company, recently agreed to advertise simultaneously on Clear Channel stations and billboards.

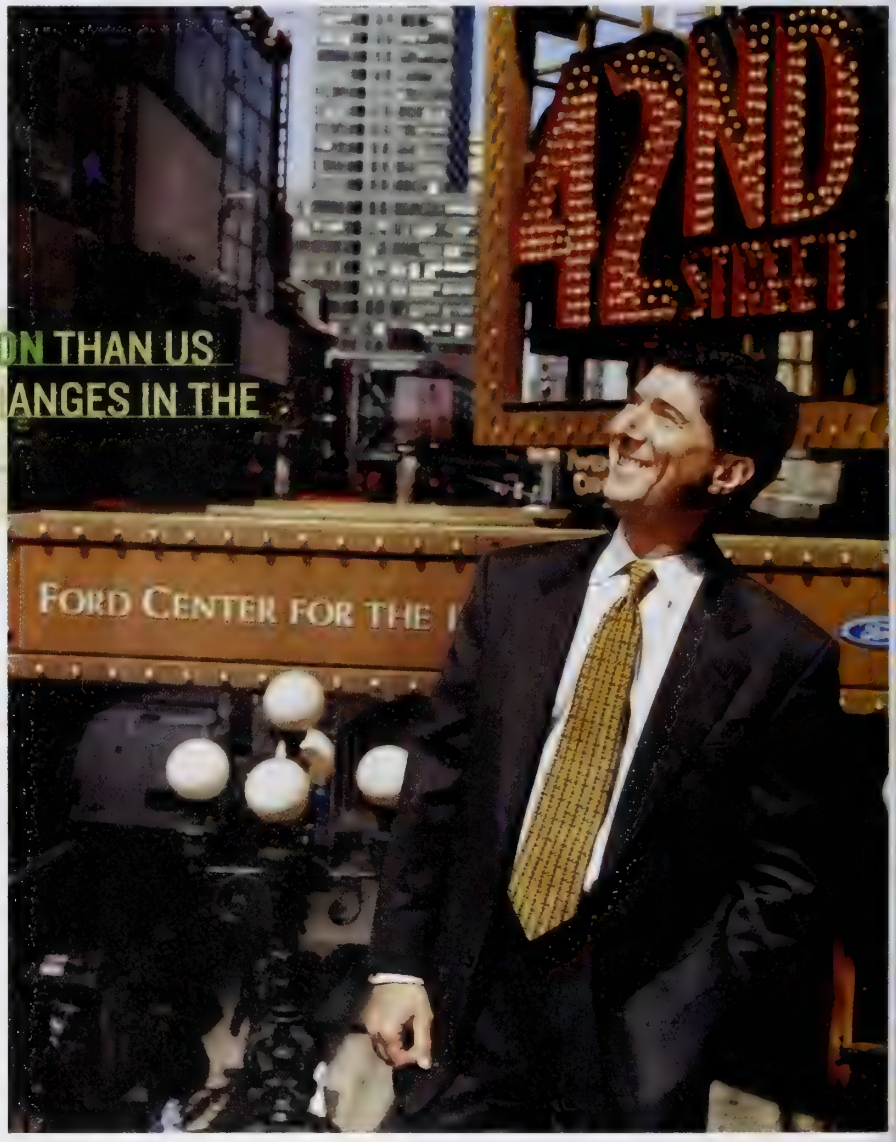
WHO'S IN A BETTER POSITION THAN US TO TAKE ADVANTAGE OF CHANGES IN THE CONCERT BUSINESS?

Brian Becker, president, Clear Channel Entertainment

At radio stations in many cities the company has developed the "studio envelope," housing all of its stations at one site to let them eliminate workers and share management, studios, news and sales forces. In the Los Angeles area eight Clear Channel stations and 400 employees have just moved into three floors of a sleek new building in Burbank. News and information programs that originate in the building are made available to other Clear Channel stations around the country.

John Hogan, the head of radio, which generates 65% of Clear Channel profits, is pushing the envelope model out to dozens of other markets. He believes he is building a network so powerful that it can eventually book ad revenues that will rival those of the TV networks. As he walks through the L.A. envelope, wisecracking radio host Danny Bonaduce, a child star in the 1970s show *The Partridge Family*, calls Hogan into the studio and ribs him a little about the new digs, live and on air. Hogan loves such spontaneity. "When you've got multiple stations inside the envelope, there's energy, there's sharing, there's a vibe that happens," Hogan says. "It's really powerful."

It's also one of the reasons some people despise the company. Clear Channel's conservative, homogeneous ways rankle many listeners. Earlier this year the company yanked shock-jock Howard Stern off the six Clear Channel stations that carried his show, after he joked once too often about race and sex. And when Natalie Maines of the Dixie Chicks made antiwar comments last year, some Clear Channel outlets banned all Chicks songs. It was the choice of the individual stations, but Mays & Co. emerged looking like stiflers of free speech.



"If Clear Channel had controlled radio during the Fifties the way they control it today, we'd all still be listening to Frank Sinatra," says Washington lobbyist Rintels.

Clear Channel has fired dozens of on-air personalities and replaced them with "voice tracking," which allows a single host to do shows in several cities without ever leaving the home studio. Listeners are led to believe it's a local broadcast. From his studio in Los Angeles, Sean Valentine has the number one afternoon show on KIIS 102.7 FM in L.A. He also has the top-rated show on Cincinnati's KISS 107.1 FM, and he tailors his syndicated show for 13 other markets.

But the system has glitches. In North Dakota, where the company owns 24 of the state's 80 stations, railcars filled with

CANALI

poisonous material overturned in 2002, emitting toxic fumes that killed one person. The police in the town of Minot called a nearby radio station, hoping to broadcast a warning to citizens. But there was no one available to get the word out. Clear Channel was filling airtime with on-air personalities who were anchoring from thousands of miles away.

Such incidents fuel charges that Clear Channel's methods have diminished the personable, local flavor of radio. The company contends the quality is better now because only top-notch talent is used. "People say we've done it only to save money, but we've really done it to improve," Hogan says. "It's a way of deploying better talent to a market."

But everywhere it turns, Clear Channel has an image problem: its sheer size. When pop tart Britney Spears dropped Clear Channel in favor of a competitor to promote her 2001 tour, Clear Channel's stations were accused of cutting her from the playlist. The company insists it never retaliates and that its programmers compose playlists to meet listener demand.

"[OKLAHOMA PUBLISHING FOUNDER] EDDIE GAYLORD DIED AT HIS DESK AT THE AGE OF 101. I SHOULD BE SO LUCKY."

L. Lowry Mays, Clear Channel founder and chairman

Even Clear Channel's newest and fastest-growing business, the live entertainment unit, which provides just 7% of operating income (and has seen profits rise 45% in two years), must fend off charges of anticompetitive practices. One suit, filed by a small Denver promoter, Nobody in Particular Presents, was settled out of court a few months ago. Another suit, brought by JamSports, a Chicago promoter of dirt-bike racing events, goes to trial in federal court in Chicago later this year.

A third case, involving John Scher, a concert promoter who sold his company to a firm that later was purchased by Clear Channel, shows how Clear Channel execs use their muscle. In a lawsuit filed in U.S. District Court for the District Court of New Jersey in 2003, Scher alleges that Clear Channel tried to impose an invalid noncompete agreement on him to stop him from starting another promotions firm. Scher recounts going to meet with a Clear Channel concerts executive, Donald Law, to discuss the dispute. "Law looks me in the eye, and he says, 'Before we discuss anything I want you to know that I've been authorized by Clear Channel to spend $2 million to keep you out of the concert business,'" Scher says. "He was letting me know that he had a war chest to fight my lawsuit." The case is pending; Clear Channel has no comment.

Brian Becker, who runs the entertainment unit, argues the company is competing fairly amid changes in the entertainment business; record labels have left the concert promotion business, leaving an opening for Clear Channel. "Who's in a better position than us to take advantage of this?" he says.

The portrayal of Clear Channel as a fearsome monopoly is a bit overdone. Ownership is far less concentrated in radio than in other media businesses. Clear Channel owns just 9% of the country's radio stations (though it dominates in large markets like Los Angeles, New York and Chicago, and it has at least one station in 89 of the 100 biggest markets). The ten biggest station owners represent 43% of industry revenue; by contrast, four record companies control 85% of record sales.

Mark Mays concedes that Clear Channel has failed to push back hard enough, allowing "fabrications" to persist. The criticism, he says, is largely a result of the radical changes the company is imposing on the radio and concert businesses. "When you're leading change, you're going to take a lot of arrows," he says. "We've got to be the ones leading the change. We want to be ahead."

Aiming for a face-lift, Clear Channel recently hired its first communications executive and brought in an outside crisis consultant. Legislation proposed by Senator McCain that would force Clear Channel to reduce its radio holdings has fizzled in committee, and the company now has three full-time lobbyists trolling on Capitol Hill and at the Federal Communications Commission. "We were a faceless stranger," says Andrew Levin, who opened the Washington office before recently moving to headquarters in San Antonio to become chief legal officer. "There were a lot of misperceptions about the way Clear Channel does business."

As the weeks go by Lowry Mays continues in rehab, his cognitive skills as sharp as ever. In a recent phone conversation with Mark, Lowry inquired about how his secretary was managing without him. "She's fine," his son told him. "She's counting your sick days—and you're about to run out." Lowry must have taken the joke to heart: A few weeks later he surprised the company's directors when he rolled his wheelchair into a board meeting. He is likely to stay involved even after Mark takes over. Mark and Randall recall a trip to Oklahoma City with their father several years ago and how they drove by the headquarters of the Oklahoma Publishing Co., founded in 1903 by Edward King Gaylord, who continued to show up for work each day until his death in 1974. Pointing to the building, Lowry told his sons: "That's where Eddie Gaylord died at his desk at the age of 101. I should be so lucky." F

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What Goes Up ...

The financial chaos at the big, old airlines is well-known. Less so the turbulence facing those heretofore high-flying discounters | By Mark Tatge and Neil Weinberg

The upstart airlines are facing contentious labor relations, unstable fuel costs and brutal competition.

JET BLUE PHIL DERNER JR.; AIR TRANS TERRI HANSON CENTRAL IMAGES, INC/ATL NEWSCOM (INDEPENDENCE)

WHEN SOUTHWEST AIRLINES FLIGHT ATTENdants gathered to mug for the camera this summer, it was the antithesis of the warm-and-fuzzy photo ops on which the low-cost carrier built its image. Instead, the attendants were showing off a banner calling for "Discount Fares—Not Discounted Employees and Families." Ouch.

Contentious labor relations, unstable fuel costs, brutal competition and financial woes have long been synonymous with so-called legacy carriers—those hub-and-spoke holdovers that collectively have lost $23 billion since the 2001 terrorist attacks. Less well-known is that the same problems threaten to lay low their discount rivals.

The nation's six largest discounters will see their combined earnings drop by 20% this year, to $410 million, predicts FORBES and Thomson First Call. Indianapolis-based ATA, the third-largest discounter, could be headed toward bankruptcy.

Too much seat capacity is one of the problems. Overall, domestic revenue per seat mile dropped 6.5% in August, usually one of the industry's best months. Capacity will grow 7% to 8% this year, mostly from discounters. "What's happening is counterintuitive," says Gary Kelly, chief executive of Southwest Airlines. "The revenue environment is soft, but literally every airline is adding seats."

Meanwhile, the big carriers are fighting back, cutting costs to win back the leisure travelers they lost to the discounters. Delta is expanding its low-cost Song unit, while United does the same with Ted. In the past year the legacy carriers have narrowed their cost disadvantage from 42% to 31% and now fly seats for 11 cents per mile, versus the discounters' 7.6 cents. The cost gap could narrow to as little as 20% next year, figures JPMorgan analyst Jamie Baker, given that United, US Airways and Delta seek $3 billion more in wage and benefit cuts.

Discounters are also driving up costs by chasing after lower-paying passengers with new routes and new frills, like entertainment gadgetry and even food. Further over the horizon the discounters' cost edge is sure to narrow even more as their new jets and young employees age.

Here's how some stack up.

SOUTHWEST Now 33 years old and the nation's sixth-largest airline, the discount giant's no-frills flights are starting to look chintzy as upstarts like JetBlue offer equally low fares, plus frills like satellite TV and assigned seats. Nor does Southwest have an edge in cheap, young nonunion labor any longer. Its attendants' contract resulted in 31% average wage hikes, so that within three years they will be the best paid in the sky, earning up to $56,350 annually. In one fell swoop its labor cost, at 3.2 cents to fly one seat one mile, soared above the 3.0 cents at Texas rival Continental, according to Morgan Stanley.

The pilots of its 737s are the lushest compensated in the air, making $190,000 in salary and profit sharing, plus up to another $100,000 in stock option grants, according to Atlanta-based AIR, a job-consulting service for pilots. The stock option income reflects Southwest's past performance. If the stock sinks or even goes sideways, the pilots may demand more cash.

Under the new wage scale, Southwest's overall cost to fly a seat one mile jumped from 7.6 cents to 8.1 cents on June 30, reports *Airline Monitor*, a trade publication. From 20% to 25% annual growth in the mid-1990s, earnings have fallen an average of 2% annually the past five years. The market may be catching on. Southwest's stock is down 30% the past year to a recent $13.80. Even so, its lofty $10.9 billion market value is more than that of the nation's ten other largest airlines combined.

ATA The 18-year-old carrier lost $90 million in the first half and has warned it could run out of cash early next year. The Nasdaq announced ATA's stock has fallen so far it will be delisted in November. The airline is busily renegotiating jet leases and reportedly shopping airport gates. Even in the face of bankruptcy, and with costs per mile of 7.7 cents, well above trendsetter JetBlue's 5.9 cents, its unions remain prickly. Its attendants recently rejected $9 million in pay givebacks, and the company's labor relations chief has described its machinists' tactics as "reprehensible."

JETBLUE Clobbered by Florida hurricanes and high fuel costs,

even the lowest-cost carrier has missed earnings forecasts and has had its full-year outlook trimmed 30% by stock analysts. At least it's making money, in part because of low labor costs. But that's because of low employee tenure at the four-year-old airline. Captains with four years' experience earn a base salary of $10,600 a month, about the same as at more established carriers. The difference: Most older airlines' captains have been around a decade or more and earn much more, says AIR President Kit Darby. In other words, as JetBlue ages, its edge will narrow.

Meanwhile, JetBlue is getting hit by competition like everyone else. Last year AirTran and Delta's low-cost carrier, Song, helped drive it out of Atlanta after only seven months. Song plans to increase its fleet by a third to 48 planes next spring, mainly to take on JetBlue (with 63 planes and 120 on order) head-to-head between New York and Florida. JetBlue's stock, at a recent $21.87, has lost half its value during the past year.

AIRTRAN Chief Executive Joseph Leonard termed the competitive environment "extremely hostile" earlier this year in explaining that the Orlando-based carrier will not be adding new destinations in 2004. The Florida hurricanes helped push AirTran into the red in the most recent quarter, and last month its flight attendants began picketing after two and a half years of fruitless wage negotiations. Although it filled more seats in the second quarter, revenue per available seat mile fell 0.5% because of competition from Delta, JetBlue and Independence Air. In the second quarter the operating margin contracted to 11.3% from 13.1% a year earlier.

FRONTIER/INDEPENDENCE In Denver, Frontier Airlines announced last month it will trim its fall schedule 11% to 13% amid what is expected to be its third consecutive quarterly loss. (Full-year consensus EPS: 64-cent loss.) Frontier has been battered in Los Angeles, forcing the company to scuttle some of its service at LAX. Ted, United's low-cost operation, has pestered Frontier at its Denver base. At Dulles Airport near Washington, D.C., Independence Air started flying in July with half-empty planes. It is expected to lose $2.25 per share this year on $681 million in revenue. F

New Crisis—Junk Statistics

Latest offering from the media panicmongers: a "stress explosion" in the American workplace. Relax, it's all baloney | By Dan Seligman

RECENT HEADLINE IN THE *BOSTON Globe*: "More Employees Seen as Stressed Out." In the *Toronto Sun*: "Study Finds Stress on the Rise—and It's Going to Get Worse." From MSNBC: "Workers feel overworked, overwhelmed." Front-page headline in the *New York Times* just before Labor Day: "Always on the Job, Employees Pay With Health." The *Times* article, a 3,000-word monster, is subtitled "The Stress Explosion" and produced by science writer John Schwartz. Also run by hundreds of papers in the *Times* syndicate, the article could leave one thinking that America's workers were about to go down for the count. The article's main themes: 1) Employees today are driven to work longer hours; 2) Stress levels in the workplace are soaring; and 3) The increase in stress produces higher levels of sickness and accidents in the workplace. Scary.

There are, however, some eyebrow-raising details about all these articles. One is that they are very short on hard data. Their case depends heavily on ominous quotes from "experts" on

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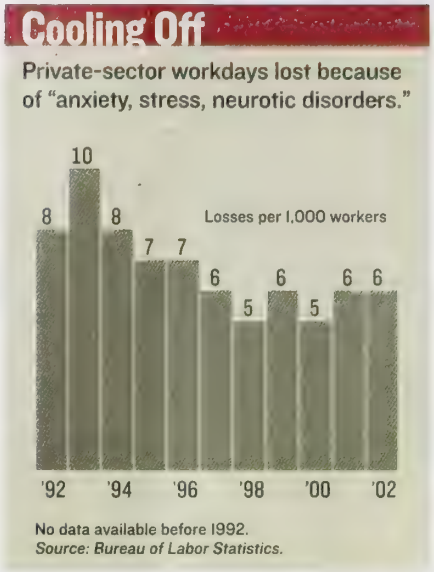
stress, and most of the experts turn out to be in the business of selling services designed to boost employee morale and "wellness." In other words they have an ax to grind. The *Times* article leans hard on opinions offered by Kronos Inc. (identified as a "human resources firm"), WorkPsych Associates, ComPsych Corp. and the American Institute of Stress (a nonprofit group).

So what do serious researchers have to say about stress in the American workplace—and specifically about the three ghastly trends delineated in the *Times* article? Mainly that there are no such trends.

Begin with the notion that American workers are now driven to work longer hours. The *Times* sidles up to this thought by first dwelling on the increase in "nontraditional employment," i.e., deals in which you work odd hours, including evenings and weekends. This is usually called flex time and generally considered a blessing for workers who now have options enabling them to work even when they have other responsibilities during normal working hours. The *Times* does not see it as a blessing, only as part of the new hassle. "These jobs require an increasing amount of time," says the article, adding: "Workers in the United States already put in more than 1,800 hours on the job a year: 350 hours more than the Germans." You have to wonder: If 1,800 hours is killing the workers now, how did they ever survive the 1960s, when the average was 1,990 hours a year? The fact is that hours worked in the American private sector have been in a long, steady decline. The Bureau of Labor Statistics tells us that in 1964 the average was 38.5 hours per week. In the first half of 2004 it was 33.6 hours. (The *Times*' "more than 1,800" is an International Labor Office figure.)



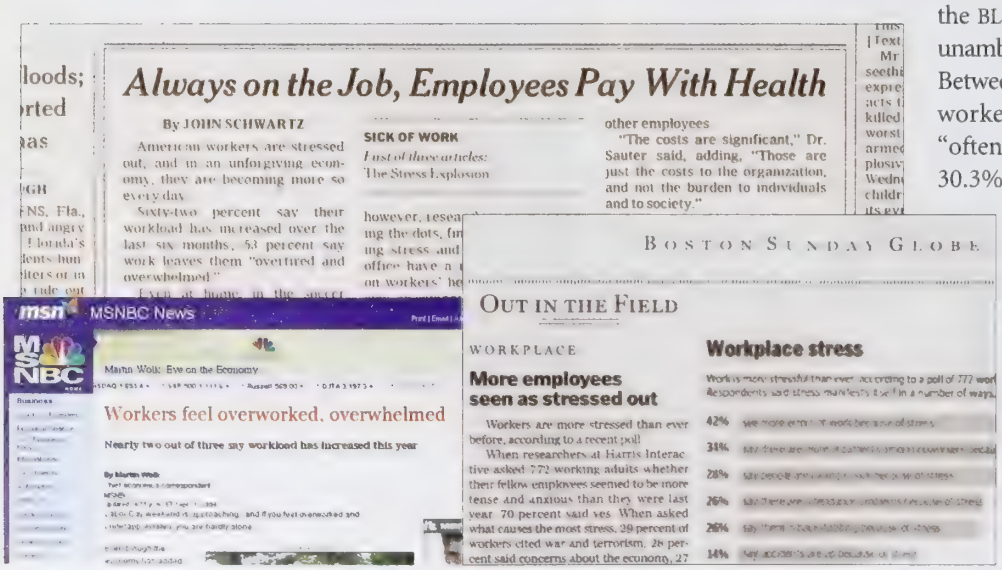
Next case: the alleged soaring stress levels. There are, it happens, two excellent sources on workplace stress. One is the Bureau of Labor Statistics. BLS tells us the number of stressed-out workers has been *declining*. The agency's latest available data, which cover the decade 1992 to 2001, show a 25% decline in the rate of "anxiety, stress, and neurotic disorders" involving days away from work.

The other solid source of stress data is the University of Chicago's National Opinion Research Center, the gold standard for surveys in the social sciences. But first it seems obligatory to note that there is also a tin standard. Many of the firms proclaiming increased stress in the workplace got this welcome news via surveys using controversial techniques, e.g., a Kronos-sponsored survey, quoted in the *Times* (and also by MSNBC News), in which 53% of American workers say their jobs leave them feeling "overtired and overwhelmed." This survey was conducted for Kronos by Harris Interactive. The survey was done online, the respondents did not constitute a "national probability sample" (as Harris acknowledged), and they did not themselves bring up the subject of fatigue levels. They were responding to a questionnaire that asked them about those "over" words.

The National Opinion Research Center study is part of a broad social survey, started in 1972 and funded by the National Science Foundation. Questions about workplace stress were not at first included, but in recent years they have been asked three times: in 1989, 1998 and 2002. Like the BLS data, the figures from this survey unambiguously show declining stress levels. Between 1989 and 2002, the proportion of workers saying they were "always" or "often" stressed declined from 38.7% to 30.3%. The *Times* article nowhere mentioned the decline but did manage to produce a line incorporating the 2002 results in its "stress explosion" framework. Breathless sentence: "More than 30% of workers say they are 'always' or 'often' under stress at work."

I spoke recently with Tom W. Smith, director of the survey, and during our chat began to fantasize about sending all the authors of those stressed-out articles to the blackboard. When they got there, they would write, 100 times, what Smith has learned from the survey: "Americans' satisfaction with work is at a high level and has been quite stable over the last three decades."

Smith adds that his statement would be rated utterly noncontroversial among sociologists specializing in workplace issues. F


Always on the Job, Employees Pay With Health
By JOHN SCHWARTZ
American workers are stressed out, and in an unforgiving economy, they are becoming more so every day.
Sixty-two percent say their workload has increased over the last six months, 53 percent say work leaves them "overtired and overwhelmed."
SICK OF WORK
Last of three articles: The Stress Explosion
other employees
"The costs are significant," Dr. Sauter said, adding, "Those are just the costs to the organization, and not the burden to individuals and to society."
msn MSNBC News
Martin Wolk: Eye on the Economy
Workers feel overworked, overwhelmed
Nearly two out of three say workload has increased this year
BOSTON SUNDAY GLOBE
OUT IN THE FIELD
WORKPLACE
More employees seen as stressed out
Workers are more stressed than ever before, according to a recent poll.
When researchers at Harris Interactive asked 772 working adults whether their fellow employees seemed to be more tense and anxious than they were last year, 70 percent said yes. When asked what causes the most stress, 29 percent of workers cited war and terrorism, 28 percent said concerns about the economy, 27
Workplace stress
42%
33%
28%
26%
26%
14%

The Business Traveler

Luxury and Refinement in the Skies

The world's best international carriers are finding new and intriguing ways to improve the air travel experience for corporate executives on the move.

Luxury and refinement live in the air. You just have to know where to look and which carriers to fly.

While U.S. airlines are cutting back and skimping on their products, the world's best international carriers are finding new and intriguing ways to improve the air travel experience for corporate executives on the move. They have committed themselves to maintaining and improving their first-class cabins, upgrading and refining their business-class service and even tweaking and reinventing their coach and economy levels of service. In fact, by any measure, 2004 is turning out to be a golden age of airline innovation, and business travelers are the beneficiaries.

At Air France, for example, the airline has rejected the decision that many other world-class carriers have made. Rather than dump its first-class service, Air France has opted to keep its l'Espace Première first class and upgrade the service. On a selection of routes operated with Air France's new Boeing 777-300ERs, most of them in Asia and the U.S., the airline will be offering its new l'Espace Première. In addition, the airline is in the process of retrofitting the remainder of its long-haul fleet.

A NEW STYLE OF FIRST CLASS

Fitted with just eight seats in a unique chevron layout, the Boeing 777's new l'Espace Première offers 50% more space for each passenger. Each passenger receives a genuine lie-flat bed that is 2 meters long. The cabin, arranged like a private lounge, features seats that unfold to reveal eight individual private areas.

The seat's structure is formed by a rigid shell. Adapted to the passenger's posture, the seat provides adjustable lower-back support and includes a massage function. A banquette facing the seat, topped with a leather-covered cushion, has private storage space. The banquette is fitted with its own seatbelt to allow a traveling companion to sit and chat. The generous seat width can be increased even more by lowering the central armrest located on the aisle side. A spacious table can be adjusted as desired and allows each passenger to dine and work in maximum comfort. Carefully integrated controls for the various seat functions are available. So are a PC power socket, controls for the personal 10.4-inch digital video screen, a telephone, indirect lighting and an individual optical-fiber reading lamp.

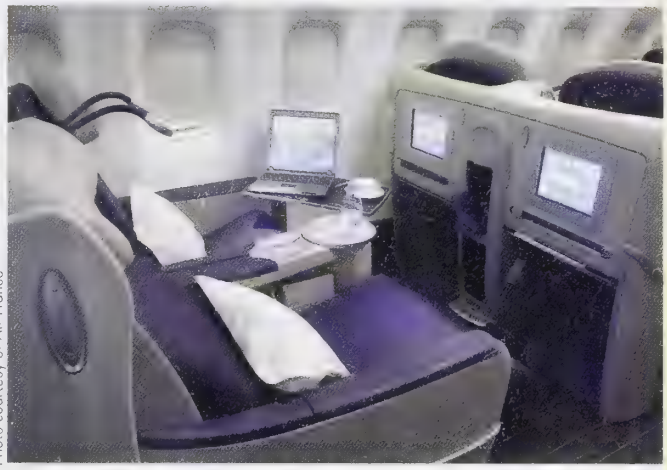


Photo courtesy of Air France

L'Espace Affaires, Air France's business class

To enhance the experience, l'Espace Première passengers receive a shoe bag, a lounging suit, slippers and a specially crafted travel kit. They also are given pure wool blankets, cushions, a mattress with duvet and a specially designed hypoallergenic "sleeping" pillow.

A NEW STYLE OF BUSINESS CLASS

What Air France calls its New Travel Concept also extends to its business class, l'Espace Affaires. On board the 777-300ERs, the 67 passengers enjoy 27% more personal space compared with previous levels. The seat is built into a rigid shell, which provides passengers with their own private

When first-and business-class passengers come aboard Malaysia Airlines, they will be provided with a leather-bound personal compendium that describes the flight itineraries, meal service and other details.

space. The lie-flat seat-bed reclines 180 degrees.

The seat-bed offers a host of very comfortable positions adapted to individual requirements and includes a leather headrest, adjustable both vertically and horizontally. The seat is also equipped with a massage function and an integrated, adjustable lower-back support. The fixed seat-back in front contains storage space for items such as shoes and a bottle of mineral water. Business-class passengers each have access to a PC power port, a 10.4-inch video screen and hi-fi headsets.

Air France has even tweaked its Tempo economy-class service with new seat designs, new headrests and footrests, curved tables, eyewear holders, cup holders and individual 6.4-inch video screens.

The New Travel Concept in all three classes will be retrofitted on the Boeing 777-200ERs next year, and Air France is already adding its new classes to its other aircraft throughout the year.

REMAKING AN AIRLINE FOR COMFORT

Malaysia Airlines, one of the world's most honored carriers, isn't sitting on its many laurels, either. The airline is about to begin a much-awaited makeover this fall, and it plans a total cabin redesign of the fleet's Boeing 747 and Boeing 777 aircraft. The transformation will take 18 months to complete systemwide, but the first renovated B777 aircraft will debut in December, followed by the debut of the B747 aircraft in February 2005.

"We're planning to have upgraded aircraft on the flights into and out of the United States as early as the first quarter of 2005," says Vladimir Velasco, Malaysia Airlines' marketing manager for North America.

Passengers on Malaysia Airlines flights will enjoy new sleeper seats in business and first class, and the total number of seats will be reduced in the first-class cabin. Buddy seats in first class will be styled like ottomans that will allow fine dining for two.

New menus have been developed by well-known chefs, and an à la carte service allows passengers to choose from an array of ethnic, vegetarian and organic meals. Personal baskets will be filled with artisan breads and all new china, cutlery and linens will be introduced.

When first- and business-class passengers come aboard, they will be provided with a leather-bound personal compendium that describes the flight itineraries, meal service and other details.

The aircraft will have an upgraded in-flight entertainment system. In first and business classes, extras include noise-reduction headphones, mood lighting in the cabin, electronic window shutters and touch-screen monitors. Passengers will have satellite phones that offer fax, air-to-ground and even seat-to-seat communications.

"This is a major undertaking, but we have listened and responded to what our passengers want in total comfort and service," says Velasco. "That's why Malaysia Airlines has been voted World's Best Cabin Crew for the past four years."

The largest carrier in Southeast Asia, Malaysia Airlines flies to more than 100 destinations on six continents. Its service includes five flights per week between Los Angeles and its worldwide hub in Kuala Lumpur. And beginning on November 1, Malaysia Airlines is launching three flights each week between Newark Airport and Stockholm, with onward service to Kuala Lumpur.

Photo courtesy of Malaysia Airlines

First- and business-class customers on Malaysia Airlines have access to lavish Golden Lounges at selected airports around the world. First-class customers are even offered pre-flight dining in the lounge.

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STAY YOUR OWN WAY™

High-Tech Tools for the Business Traveler

There isn't a business traveler in the world who would give up his or her cell phone or laptop computer. But these high-tech devices require care, feeding and lots of new products and services on the road.

The nation's army of business travelers doesn't travel on its stomach. It's technology that drives today's mobile executives. They rely on their wireless phones and laptop computers more than any other tools.

But wireless phones and laptops aren't exactly low-maintenance traveling companions. They need care and feeding and a seemingly endless array of peripheral products, services and Internet support. The good news, though, is that there's always something new and worthwhile to make life on the road a little less stressful and a lot more productive.

SNOOPER STOPPERS

The ubiquity of laptop computers has also brought its own security problem: corporate snoopers. A Kelton Research report (October 2003) says that nearly three out of four people admit to peeking at someone else's computer screen. That means your corporate data is at risk. So are internal memos and just about any other bit of company-confidential material that your laptop screen displays.

Photo courtesy of 3M

The 3M Privacy Filter

Snooping can take place anywhere: offices, train stations, airport terminals and, of course, on an airplane, where tight seats mean business travelers sit cheek-by-jowl while working on some of their firm's most sensitive data. In fact, according to Kelton, nine out of ten business travelers admit to glancing over the shoulder of an unsuspecting fellow passenger.

Adding to this security risk is the proliferation of wireless hot spots. Easier wireless access to the Internet, usually at public places such as coffee shops, hotel lobbies and conference rooms, means still more important corporate information exposed on laptop screens.

But there is a solution to prying eyes on the road: 3M Privacy Filters. Using the company's unique microlouver technology, which works like the mini-blinds on windows, the 3M filters block the screen to anyone viewing from the side of the laptop monitor. People sitting directly in front of the screen are able to see on-screen documents. From the side, however, snoopers see a dark, blank screen.

"This technology is especially useful when sitting close to people in public places such as airplanes, where [workspace] is in close proximity," explains a 3M optics engineer. "The computer screen appears dark from the side so neighbors can't steal glances at what the computer user is working on."

The privacy filters for notebook and laptop computers offer a virtually hidden attachment system that allows the filter to fit snugly inside the bezel of the screen. The filters remain on the monitor at all times, stay in place when the notebook is closed and require no special storage.

Depending on size — a new 3M filter for extra-large, 15.4-inch laptop monitors has just been introduced — the 3M products cost between $50 and $150. For more information, call 800-553-9213 or go to www.3M.com/computerfilters.

YOU'VE GOT MAIL — ON YOUR PHONE

European and Asian cell-phone users actually generate more text messages from phones than voice calls. But Americans have this crazy notion that their cell phones are actually for wireless calls. That may change now that a company called Teleflip (www.teleflip.com) has introduced a simple process for phone-to-phone text messaging and, perhaps more important, computer-to-phone messaging.

The key: You don't need to know the cell phone's actual address. If you know the cell phone's voice number, you now know its text-messaging address, because all you need to do is tap out a message and send it to phonenumber@teleflip.com. Teleflip has developed a matrix that automatically tracks down the phone and delivers the

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MORE SPACE

AND MORE GRACE ON THE ROAD

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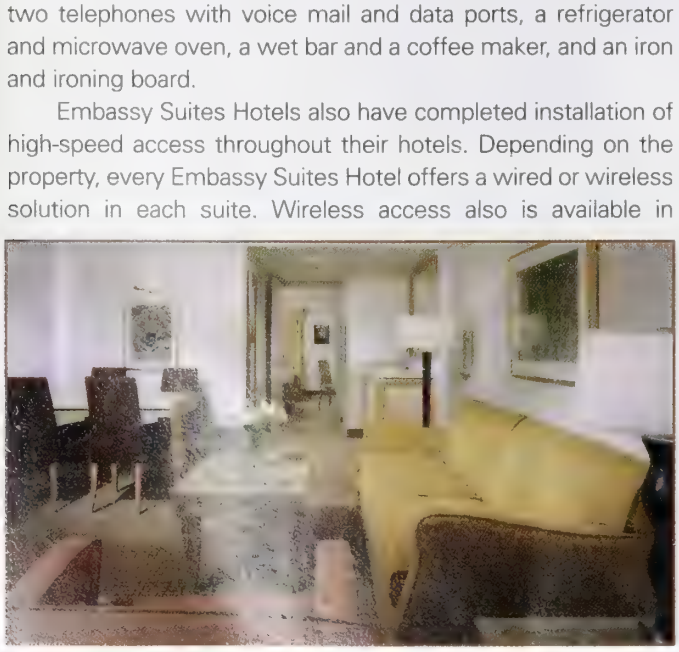
IMAGINE YOUR LIFE ON THE ROAD BEING BETTER. EMBASSY SUITES HOTELS® OFFER SPACIOUS ACCOMMODATIONS AND GRACIOUS AMENITIES TO MATCH.

Can you imagine your life on the road being better? Can you imagine more spacious accommodations? A cooked-to-order breakfast? A friendly spot for a relaxing beverage at the end of the day? Can you imagine high-speed Internet access wherever you go and the best room rate guaranteed whenever you book? And it's always nice to imagine plenty of points in a terrific frequent-guest program.

Such simple pleasures needn't be a figment of your imagination. Embassy Suites Hotels, the nation's largest brand of upscale all-suite properties, already offer those amenities and much more to business travelers who want their lives on the road to be a lot more comfortable.

Every Embassy Suites Hotel offers the ultimate amenity: more personal space. Unlike traditional hotels that squeeze guests into one cramped room, Embassy Suites offer every guest a large, two-room suite. Each of the more than 42,000 accommodations at the more than 170 Embassy Suites worldwide is exquisitely appointed. Each has a separate living area with a sofa bed and desk, a private bedroom and a mini-kitchen. Each suite is equipped with two remote-controlled televisions, two telephones with voice mail and data ports, a refrigerator and microwave oven, a wet bar and a coffee maker, and an iron and ironing board.

Embassy Suites Hotels also have completed installation of high-speed access throughout their hotels. Depending on the property, every Embassy Suites Hotel offers a wired or wireless solution in each suite. Wireless access also is available in all Embassy Suites hotel lobbies, atriums and prominent dining areas. Wired or wireless solutions are available within all meeting and conference rooms, too. Hotel room guest charges for high-speed access do not exceed $9.95 for a 24-hour period and Embassy Suites Hotels also offer wireless access devices, detailed instructions for the "plug and play" service and a toll-free, 24-hour assistance number for technical questions.

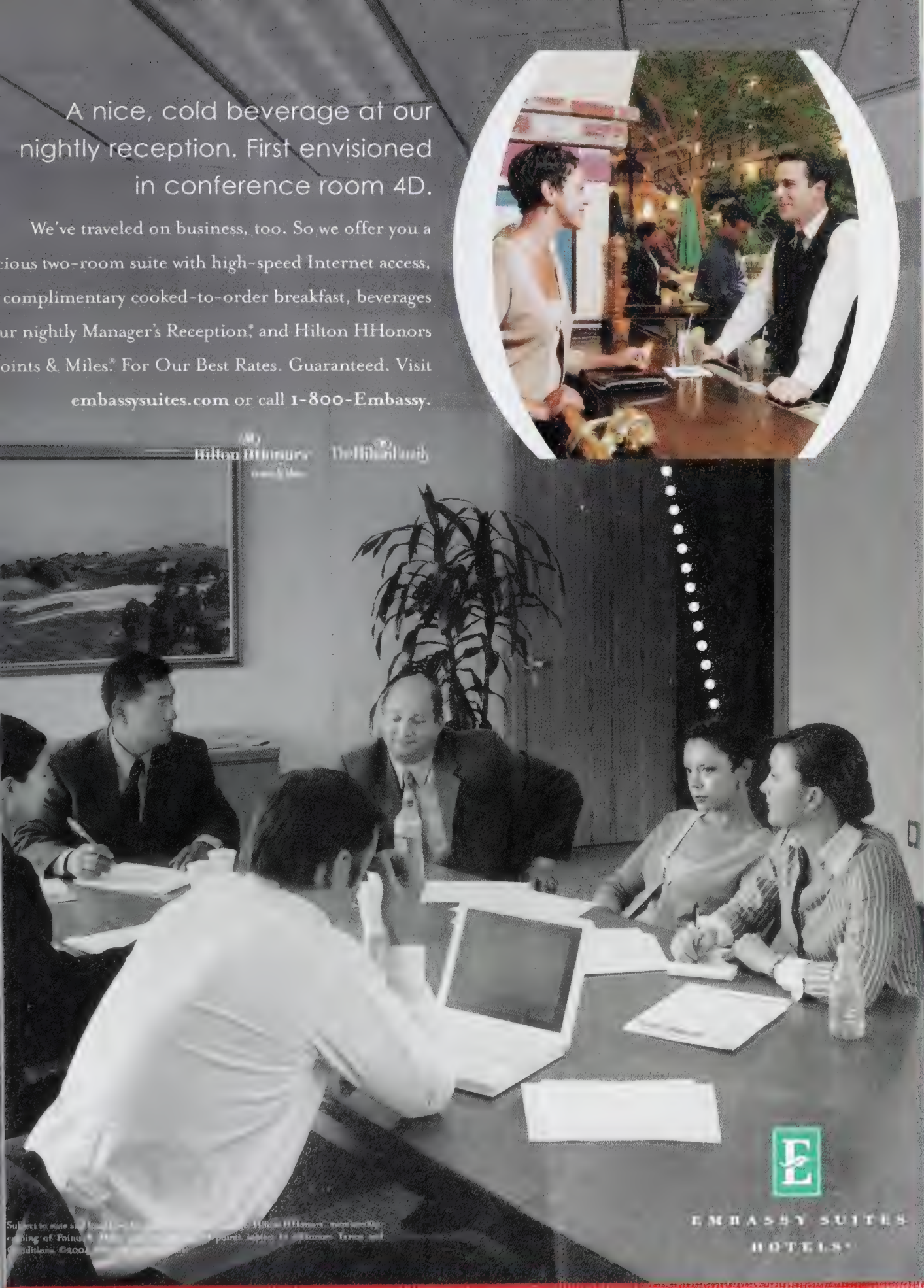


Embassy Suites offer business travelers a more enjoyable experience on the road, thanks to a thoughtful collection of guest services and amenities. Every guest receives a complimentary, cooked-to-order breakfast each morning. Beverages are available each evening at a two-hour Manager's Reception (subject to local laws). A complimentary copy of *USA Today*® is delivered to each suite. Every Embassy Suites Hotel is built around a spacious, airy central atrium that helps guests relax and feel more comfortable. The majority of hotels have a swimming pool, sauna, exercise center and room service so guests can relax, play, work out or dine on their own schedules.

And 20 years of steady growth means Embassy Suites Hotels are available just about everywhere in the U.S., Canada and in selected locations within South America. Properties are located at major gateway airports, near convention centers and in major business centers such as lower Manhattan and the Chicago lakefront. There are lavish properties in important leisure markets such as Niagara Falls, Canada, and Los Marlins in the Dominican Republic. And the goal is to add 95 more Embassy Suites Hotels by 2010.

Practicalities? Travelers need not hunt for the best rate at an Embassy Suites Hotel. That's always available at embassysuites.com. You can make a reservation by phone by calling 800-EMBASSY. And as part of the Hilton family, Embassy Suites Hotels participate in Hilton HHonors, the worldwide frequent-guest program that includes more than 2,500 hotels, resorts and vacation ownership properties.

EMBASSY SUITES HOTELS®


A nice, cold beverage at our nightly reception. First envisioned in conference room 4D.
We've traveled on business, too. So we offer you a
cious two-room suite with high-speed Internet access,
complimentary cooked-to-order breakfast, beverages
ur nightly Manager's Reception,* and Hilton HHonors
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embassysuites.com or call 1-800-Embassy.
EMBASSY SUITES
HOTELS®

A new competitor for the ubiquitous Microsoft Internet Explorer browser allows Web users to open many Web sites with the click of just one button.

text message. And since messages can be sent to phones from any Internet-capable devices — desktop computers, laptops, personal digital assistants and, of course, other wireless phones — Teleflip has solved the major stumbling block to widespread cell-phone text messaging.

Teleflip's service is currently free. You can send messages from Teleflip's Web site or simply send a message from any e-mail program.

MASSAGING YOUR FREQUENT-TRAVEL MILES

Given the financial losses of the Big Six U.S. airlines in recent years, it's no surprise that business travelers are beginning to wonder about the safety and liquidity of their frequent-travel miles and points. But there is hope: Frequent-flyer miles and hotel points are convertible and transferable between programs.

The problem is that conversions are often costly, and the process is sometimes convoluted and buried in the fine print. But a new Web-based management tool, called the Mileage Converter, is now available at Webflyer.com, the leading online site for frequency-program information. The Mileage Converter shows nervous — or just curious — business travelers how to transfer miles, points, kilometers and credits between virtually any two travel-loyalty programs. It also advises which transfer is the most efficient and which will cost the fewest miles or points.

The Mileage Converter is free for all to use at www.webflyer.com/programs/mileage_converter.

INTERNET IN THE SKIES

After years of testing and preparation, business travelers are finally getting Internet access in the skies. As of this summer, Connexion by Boeing, the first-ever in-flight Internet system, is actually working on six Lufthansa aircraft that ply the Munich-Los Angeles and Munich-Tokyo routes. Stan Deal, vice president of network sales for Connexion, says he expects 30 planes from four airlines to be equipped with in-flight Internet by the end of 2004.

Connexion offers seamless, relatively high-speed (about twice the speed of dial-up) satellite Internet access at your seat during your flight. Business travelers can surf the Net with abandon and check Web-based e-mail. Better yet, the Connexion system is wireless and works with any laptop equipped to handle the 802.11b wireless standard.

Deal says Boeing has signed corporate accounts for Connexion that cover about 300,000 travelers. For independent business flyers, the system is priced at $9.95 for 30 minutes, plus 25 cents for additional minutes. Unlimited access plans range from $19.95 to $29.95 per flight, depending on distance.

EXPLORING A NEW BROWSER

One of the reasons that Microsoft seems to rule the world is its Internet Explorer browser. By some estimates, it runs on about 95% of all desktop and laptop computers in the world. But Explorer, which hasn't been seriously updated in recent years, now has a robust competitor called NetCaptor.

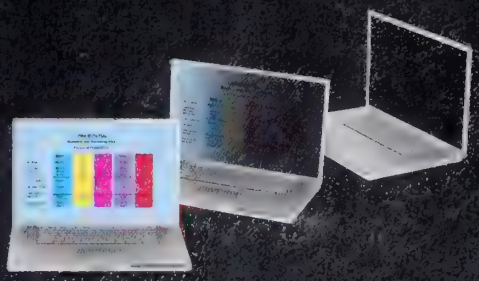
Created by a company called Stilesoft, NetCaptor looks much like Explorer. It requires very little learning from the user's standpoint, and it even automatically imports your bookmarks from Explorer during the installation process. Its primary breakout feature is "tab browsing." With one mouse click, you can open several Web sites at once, each represented by a tab at the top of the browser. You can switch between sites by clicking on a tab.

To use the tab browser, you create CaptorGroups, which are lists of Web sites that you want to open at once. You could, for example, group all newsmagazine Web sites in a single group. Or you can gather the Internet travel agencies such as Travelocity, Expedia and Orbitz into one group. With a single click on the appropriate tab, each of the newsmagazine sites will open, one behind the other. The same thing happens when you open the tab of the travel agencies you collected in a CaptorGroup. The entire process takes only about 15 seconds on a high-speed connection.

NetCaptor is available at www.netcaptor.com. A free version of the browser displays advertising. NetCaptor's advanced version sells for $29.95 and is ad free.

ARE YOU DOING ALL YOU CAN TO PREVENT UNINTENTIONAL DATA LEAKS?

Little leaks can be a big deal. Especially considering U.S. corporations lost more than $59 billion due to theft of proprietary information in 2001 alone.* So whether you are in your office or on the road, help keep sensitive information on your computer screen safe with 3M™ Privacy Filters. Their unique microlouver technology blanks out views from the side. It's just a little added precaution. But in the end it could make a big difference. For more information on our complete line of filters, visit www.3M.com/computerfilters or call 1-800-553-9215, today.



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Travel With Malaysia Airlines To Over 100 Destinations Across 6 Continents

48
A perfect landing! Welcome home!

47

46

45

44
In New York, you sign a deal that takes you to 46.

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39
-30°C. Luckily you brought a thick jacket. Go to 41.

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You stop at a concert in Buenos Aires. Go back to 25.

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In Mumbai, you get a boat ride to 33.

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Great deal on Ndebele pots in Johannesburg. Go to 30.

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15
A cheetah crossing holds you up in Cape Town. Go back to 8.

14

13

12
You're caught littering in Hyde Park. Go back to 5.

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The Backpacker

The Businessman

The Family

The Shopper

The Adventurer

The Tour Guide

>> How to play:

1 Choose your character & cut it out.

2 Use dice if you can. If not, flip a coin. Heads = 2, Tails = 3.

3 To reach HOME, you must get the exact number.

malaysia AIRLINES
Going beyond expectations

Reimagining the Business Travel Hotel

As more and more business travelers make their booking decisions based on the availability of high-speed Internet access in their rooms, savvy hotel companies are rushing to respond.

If the news about life on the road since 9/11 hasn't been particularly happy, there has been one notable bright spot: Several major lodging chains have been aggressively expanding and upgrading the products and services for business travelers.

All across the nation — all across the world, in fact — the biggest and best hotel companies have added lavish new properties in great business centers and top-notch resort destinations. The chains have pioneered new concepts in lodging. They have created innovative new products to speed up the basic functions, such as check-in and checkout. And they have begun to fundamentally redefine how business travelers use hotel services.

One of the most dramatic improvements in hotel service began last month at Radisson hotels and resorts across the Americas. Radisson guests can now check in online up to seven days before their arrival on the Radisson.com Web site. They can also note many special services on the Web before their arrival. This new service, called Express Yourself, is available to any Radisson customer, regardless of how he or she originally booked the room.

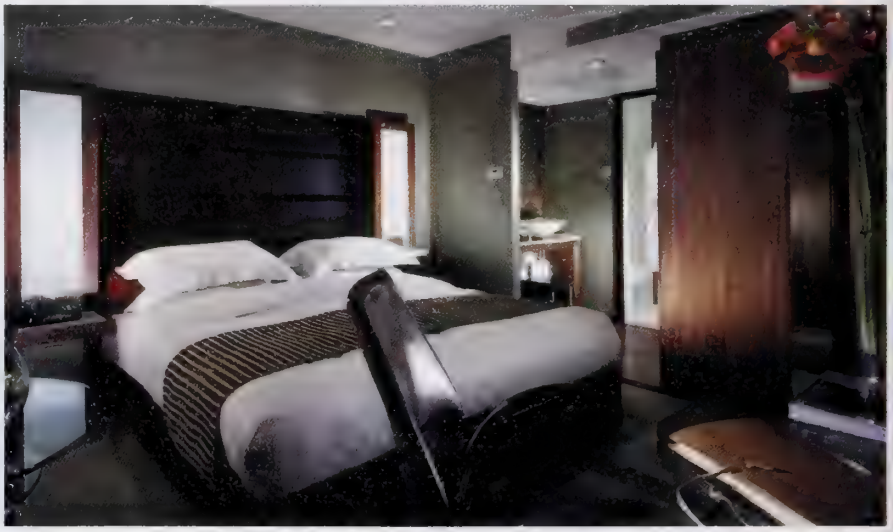

Photo courtesy of Radisson

Guests can now check into their luxuriously appointed Radisson guest room up to seven days in advance by using the Express Yourself program at the Radisson.com Web site.

THE END OF THE WAIT IN THE LOBBY

Hotel companies continue to invest millions of dollars in designing and acquiring check-in kiosks to alleviate long lines at the front desk in the lobby. But Radisson's executives adopted the customer's perspective: The best line is no line at all.

"With rampant changes in technology occurring every six months, the conventional, costly, self-serve kiosk 'lobby furniture' we see today may evolve to become a cell phone or other wireless identity card in the near future," says Scott Heintzeman, vice president-CIO, Carlson Hospitality Worldwide, the parent company of Radisson. "Our company looked inside and then beyond the hotel industry to find a better, more innovative way to expedite these services and to immediately provide this higher level of service."

Radisson's Express Yourself program features a three-step process. First, guests reserve a room via any Radisson booking channel (Web site, call center, hotel direct or through a travel agent). Then, seven days prior to their visit, they receive an e-mail inviting them to "express" themselves by checking in at the Radisson Web site (www.radisson.com). They may also request special services, preferences that might include a specific room location (i.e., proximity to elevators, high or low floor) or high-speed Internet access.

Upon arrival at any Radisson property in the Americas, they need only identify themselves at the front desk. They will promptly receive a key packet and hotel information — with no waiting and no hassles. Unless guests change their profile, their selected services will be delivered automatically every time they stay at a Radisson location.

Radisson guests in the Americas can now check into their rooms up to seven days before their arrival simply by surfing to the Radisson.com Web site.

"In the near future, guests will also be able to express their personal preferences for additional services such as newspapers, automatic wake-up calls or room-service orders," says Bjørn Gullaksen, Carlson Hotels Worldwide executive vice president and brand leader. "These features will be available to all guests, regardless of the booking process."

THE ERA OF HIGH-SPEED ACCESS

As more and more business travelers make their booking decisions based on the availability of high-speed Internet access in their rooms, savvy hotel companies are rushing to respond. Many chains have made high-speed Internet access a "brand standard," meaning it must be present in every room in every hotel that flies the company's flag.

For example, Embassy Suites Hotels, the nation's leading all-suite upscale hotel brand, now offers high-speed Internet access throughout its 174 properties. Every property offers wireless solutions in all hotel lobbies, atriums and prominent guest dining areas, and wired or wireless solutions are available within all meeting and conference rooms.

Charges for high-speed Internet access will vary, but prices will not exceed $9.95 for a 24-hour period. Guest access devices are available for travelers who do not have computers with wireless capability. All Embassy Suites Hotels provide guests with detailed instructions regarding how to use the plug-and-play high-speed access, as well as a toll-free, 24-hour guest-assistance number for technical questions.

EVERYWHERE YOU NEED A HOTEL

For all the technological and service wizardry, however, the key to winning the loyalty of today's corporate business travelers is much as it has always been: location, location, location. Great hotel chains not only need great hotels, they need great hotels and resorts wherever the business traveler wants them.

Radisson Hotels & Resorts has been growing quickly to meet the needs of business travelers around the world. It recently opened a 318-room property in Northbrook, Ill., the fast-growing Chicago suburb. It has opened a 153-room hotel in Ankara, the capital of Turkey. Its Rezidor SAS affiliate in Europe has recently converted several important hotels in France to the Radisson flag. That includes properties in Lyon and Aix-les-Bains. Radisson SAS has also opened a 500-room hotel at Stansted, the fastest-growing major airport in London. Also new in England is the Radisson Edwardian Manchester, a $93 million property on the site of the city's historic Free Trade Hall. The 263-room property is a marriage between the grand Free Trade Hall facade and a 16-story tower. The two are connected by a glazed atrium.

Embassy Suites Hotels recently has been extending its upscale all-suite concept throughout the Americas. A spectacular 512-suite property opened last year at Niagara Falls in Ontario, Canada. The 42-story hotel, just 100 yards from the brink of the falls, offers breathtaking views from nearly every suite. A 126-suite Embassy Suites opened last year in Juan Dolio, Dominican Republic, on the 9th hole of the famous Los Marlins Golf Course. And next year, Embassy Suites will open its first property in Mexico, a 162-suite hotel on the Paseo de la Reforma in the heart of Mexico City's bustling business and financial district. ■

Joe Brancatelli is editor and publisher of JoeSentMe.com, the noncommercial Web site for business travelers. He can be reached at joe@joesentme.com.

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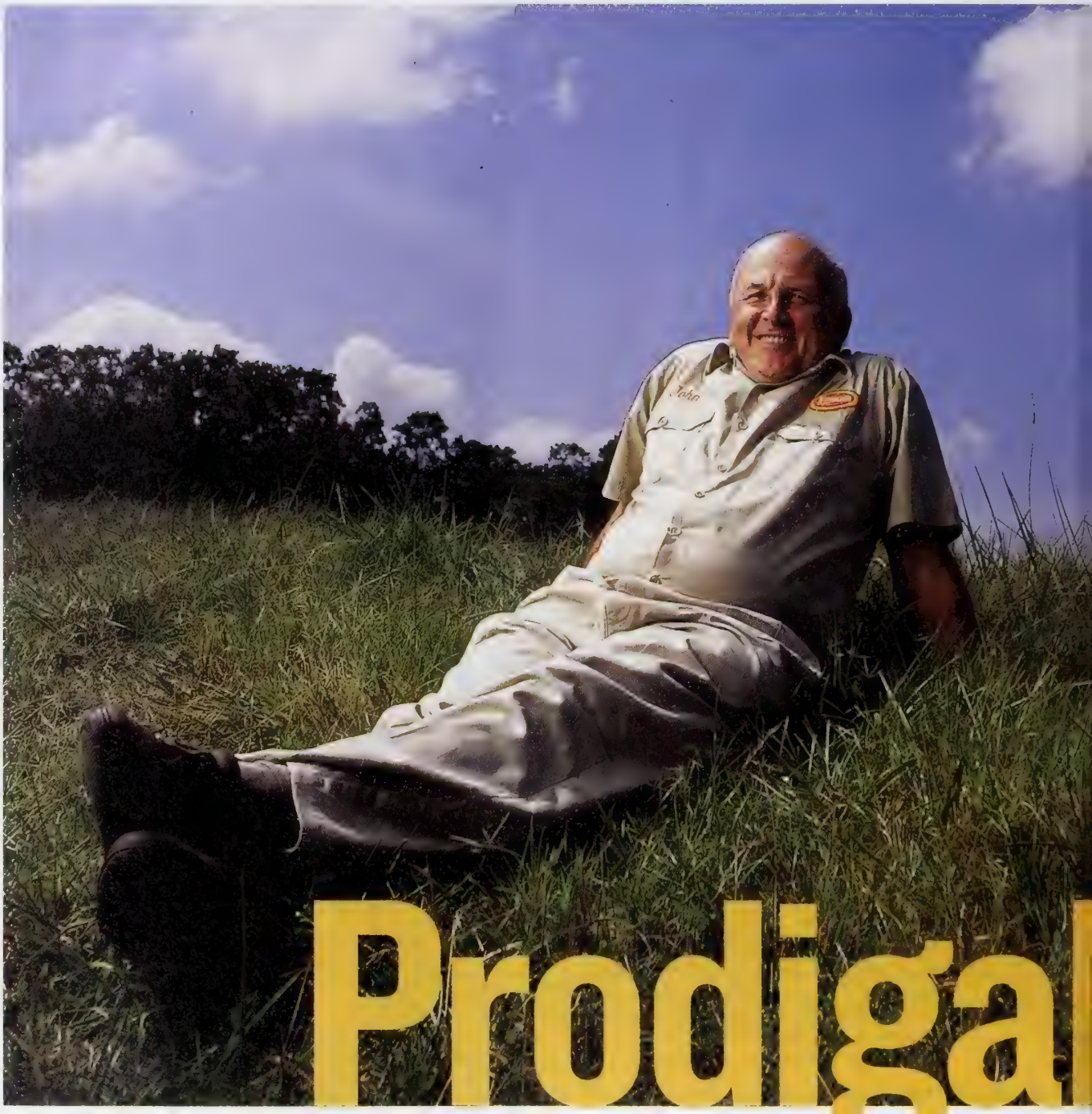

Prodigal

John Tyson is cleaning up after his billionaire dad, struggling to make Tyson Foo

EVERY DAY 325 TONS OF pork bellies arrive at the world's largest bacon plant, a Tyson Foods operation in Omaha. Slabs of marbled pork make their way through brines, hickory-smoke ovens and rotating blades. A conveyor belt in the immaculate 365,000-square-foot factory suddenly branches off to an industrial-size microwave, where fully cooked bacon emerges one minute later, at a rate of 700 slices per minute.

Precooked bacon is in hot demand and an example of how Tyson is breaking the low-margin shackles of its commodity business. A 16-ounce package of Tyson raw bacon retails for $4.50; by our estimate, that bacon, cooked down to 4.8 ounces, commands $7.60. The same kind of product enhancement can be found up and down the product line at Tyson: preformed chicken nuggets for McDonald's, precooked beef slices for Subway.

Tyson still is, for the most part, a slaughterhouse, but the prefinished meat now ac-

st the world's largest meat producer, but the best. By Richard C. Morais

"Instead of doing more animals," drawls Chief Executive John Tyson, in his Springdale, Ark. office modeled after the White House's Oval Office, "we're doing more to the animals we've got."

In 2001 John Tyson, newly appointed to the top post, closed on a nasty and leveraged $4.6 billion takeover of IBP, Tyson Foods' much larger pork and beef rival. This, even after his father, the company's largest shareholder, tried to kill the deal, amid allegations IBP had misstated its accounts.

A chicken company overpaying for a larger player with its own set of problems? Enough to bring up your dinner. And Wall Street had its doubts about John Tyson, the unproven son of chicken king Don Tyson. The 51-year-old John is not just a former hell-raising alcoholic—dry 14 years—but slightly offbeat: He's a Crosby, Stills, Nash & Young groupie who travels on the band's revival tour bus whenever he can—and a devout Christian studying the Old and New Testaments in a weekly course that will take seven years to complete.

Nor were investors reassured by Don Tyson, who sold his first stock in 40 years after the shares had fallen 70% during his son's tenure. Tyson claimed the selling was for estate purposes.

But Tyson Foods may be putting size and diversity to work. Moving 40 million chickens, 344,000 hogs and 198,000 head of cattle a week through 128 processing facilities, Tyson Foods is the world's largest meat producer and dominates American dinner plates. It controls 26% and 27%, respectively, of U.S. chicken and beef markets and, at 19%, is second in pork only to Smithfield Foods. Tyson has paid down $1.6 billion in debt since 2001 and is rencounts for 39% of its $26 billion in revenues and probably a much larger share of its profits. Tyson is due to record operating income (net before depreciation, interest and taxes) of $1.5 billion in the year ending Oct. 2, up from $1.3 billion last year. This despite a weak fourth quarter occasioned by rising feed costs. The company's stock, 18 months ago at $7, has climbed to $16.

dering about $500 million a year in free cash flow.

Savings in purchasing are far from fully realized and are a source of disappointment. But watch. John Tyson hired a former Nestlé executive to drag his firm into the modern age, with a doubling of the data-processing budget from 0.4% of sales in 2002 to a recent 0.8%.

Systems management hasn't been the only headache. The company has had to fight off avian flu, mad cow disease and legal bouts that would have gutted a lesser company. The rap sheet includes an SEC investigation, still under way, into whether Don Tyson's perks were adequately disclosed; a $1.3 billion jury verdict against the former IBP for supposedly abusing its market position in cattle (quashed by the judge but now on appeal); an elaborate federal sting operation into the smuggling of illegal aliens that resulted in a suicide and two guilty pleas by Tyson managers but exonerated the company of systemic wrongdoing; and a U.S. Department of Labor suit against Tyson that seeks unspecified back wages for employees.

"John weathered the storm," says Woody W. Bassett, partner at Fayetteville, Arkansas' Bassett Law Firm and one of his closest friends. "Steadily, he has emerged from his father's shadow."

John Tyson's grandfather founded the company in the Depression, delivering Ozark poultry to Chicago, but it was his father who built the protein powerhouse alongside Wal-Mart in the lush northwest corner of Arkansas. Don Tyson, a billionaire, brought back the butcher's spot on the roster of superwealthy Americans that was once held by the Swift and Armour families. He climbed to the top by modernizing the U.S. poultry industry—building egg hatcheries, commercial feed plants, chicken farms and processing plants that could even spit out fully cooked chicken dinners. He also ate rivals standing in his way.

In the background John Tyson, on the payroll but overshadowed by his father, was drinking heavily. In 1990, after his much-loved and heavy-drinking uncle died in a freak accident, John Tyson corked the bottle. "Just got tired," he says. "It was God's grace that gave me a chance to be clean."

As John Tyson slowly began reclaiming his reputation in the 1990s, Tyson Foods came under the spotlight. Bill Clinton ran for President and the media zeroed in on Arkansas' reputation for good ol' boy politics. It transpired that Don Tyson's

lawyer, James Blair, had helped Hillary Clinton turn $1,000 into $100,000 with some surprisingly astute commodity trades. Then in 1997 Bill Clinton's agriculture secretary, Alphonso (Mike) Espy, was charged with corruption for accepting, among other things, Tyson gifts of Dallas Cowboys play-off tickets and a scholarship for his girlfriend.

John Tyson gave testimony in exchange for immunity and famously remarked that the only reason he was kept on during his drinking years was because he was the boss' son. Espy was eventually cleared of all charges, but Tyson Foods had to pay $6 million in fines and costs for trying to influence an official, and its head of external relations, Archibald Schaffer III, was sentenced to jail. "Archie," reads the handwritten message scrawled across the bottom of Schaffer's presidential pardon, "Every President makes a few mistakes—this, however, wasn't one of the them. Bill Clinton."

The Clinton era was, in fact, tough for Tyson Foods. Because Democratic administrations tend to owe unions and trial lawyers favors when they come to office—and perhaps because the Clinton White House wanted to distance itself from old Arkansas friends—the frequently nonunion Tyson Foods plants found themselves on the receiving end of high-profile federal investigations, some of which continue today. The longest-running private suits, related to the Labor Department's review of the industry's labor practices, revolve around whether workers should be paid for the time spent donning smocks and getting disinfected.

By 1998 Tyson Foods had $7 billion in revenues but net income of only $25 million. A glut of chicken and some poor investments by Don Tyson took their toll. A revolving door of chief executives reminded investors the semiretired Don Tyson still called the shots; while the family owns 30% of the company, Don Tyson controls 80% of the voting rights. In 2000 Don made his son the chief executive.

After bagging IBP, John left alone the target's well-run beef and pork slaughter operations and instead spent time digesting IBP's 200 brands and 17 companies, each with their own personnel and data-processing departments. His goal: build value-added products to 50% of revenues.

Higher-margin business does not just mean selling prepared foods. John Tyson demanded one face to the customer, one bill and one delivery across the new firm's entire protein portfolio. Consider how that changed Tyson's McDonald's relationship. Tyson Foods had already supplied McDonald's with 45% of its chicken in the U.S.; it has since consolidated 3,000 far-flung Tyson employees into one dedicated unit to service McDonald's worldwide. Before, McDonald's might have separately submitted to Tyson Foods different orders for everything from sausage meat to chickens. Today one McDonald's order covers multiple meats; Tyson Foods might fill the order in 27 different factories but will then deliver the supplies to convenient distribution centers for McDonald's to pick up. Tyson Foods also worked two years to meet McDonald's demands for a high-quality chicken strip, which, for mass-production purposes, had to have a consistent and uniform shape.

The U.S. food service unit—selling everything from raw T-bone steaks for dinner houses to the spicy chicken wings in Las Vegas' all-you-can-eat buffets—accounts for 37% of Tyson's revenues. Tyson Foods' 100 food distributors, such as giant Sysco Corp., have been cut to 60 since the IBP merger.

Ritz Food Service, with $80 million in sales, supplies restaurants and hospitals in California, purchasing $5 million of goods from Tyson a year. It previously placed partial truck orders every five days. So Tyson recently consolidated Ritz's pizza orders with deliveries of chicken. Ritz can now order a full 34,000-pound Tyson truck every five days, crucially letting Ritz qualify for an additional 4-cent-a-pound discount that enables it to compete on price with the majors. "It allows an even playing field with Sysco and U.S. Foodservice," says President Ritz Guggiana.

At the other end of the size spectrum is Wal-Mart. Tyson Foods is at the forefront of the giant retailer's move to do away with in-store butchers. Tyson clinically carves, trims, wraps, prices, labels and bar-codes the meat for Wal-Mart's Supercenters and Sam's Clubs.

Other supermarket chains are offered their own butcher-outsourcing deals, a service Tyson backs with analysts. "We take census data, against real tracked-sales information, and then analyze the data with our customer so that [each store's meat case looks like] a store from the neighborhood," explains John Lea, Tyson boss for consumer fare. "In African-American communities there is a preference for livers and gizzards. In the Hispanic communities they like deboned dark meat. Wealthy urban areas are almost entirely dominated by boneless, skinless chicken breasts."

"Tyson has done a very effective job of integrating IBP," concedes Richard Searer, group vice president at Kraft Foods, both a buyer of Tyson meat and a competitor in the $6 billion lunch-meats category. "These are smart businesspeople."

It's not happily ever after—yet. Legal problems and some bad family habits cast a pall. Tyson Foods' habit of injecting meat with water, salt and phosphate "enhancer" might help win taste tests but could backfire once consumers catch on, claims a supermarket executive. Furthermore Tyson

Bargain Box Chicken

Meatpackers typically carry heavy debt. Divide Tyson's enterprise value (market cap plus net debt) by its operating income and you get a multiple by which it looks tasty.

COMPANY	LATEST 12-MONTH SALES ($BIL)	LATEST 12-MONTH OPER INCOME[1] ($MIL)	ENTERPRISE VALUE[2] ($BIL)	ENTERPRISE MULTIPLE[3]
Hormel Foods	$4.6	$470	$4.0	8
Pilgrim's Pride	4.6	217	2.4	11
Smithfield Foods	9.9	425	4.7	11
Tyson Foods	25.9	1,577	9.2	6

[1]Earnings before interest, taxes, depreciation and amortization. [2]Market value plus net debt. [3]Enterprise value divided by operating income. *Source: Reuters Fundamentals via FactSet Research Systems.*

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VoIP Embraced by a Growing Number of Enterprises

Technology Boosts Productivity, Reduces Costs and Increases Customer Satisfaction

JUGGLING MULTIPLE COMMUNICATION DEVICES CAN COST TIME AND PRODUCTIVITY. IT SEEMS like a vicious cycle: A voice-mail message urges you to check an e-mail message to confirm an important appointment that in turn requires a follow-up phone call.

INCREASE EFFICIENCY

It's situations like this that demand more efficient communications to boost productivity, simplify communications management and lower costs.

"Businesses need solutions that increase efficiency rather than impede it," says Cathy Martine, senior vice president, AT&T Internet Telephony, "especially as everyone tries to be more productive and save money at the same time."

That's why a hot new technology called Voice over Internet Protocol (VoIP) has executives throughout the business world excited. VoIP converts analog voice signals into digital bits so they can be transmitted via the existing corporate IP network or the Internet. Phone calls travel just like e-mail, using network resources already in place, while opening up possibilities for greatly increased productivity.

MANAGE COMMUNICATIONS EFFECTIVELY

VoIP makes possible a whole new range of features and capabilities. Busy executives working from multiple offices with multiple phone numbers can now simplify their lives. With VoIP, your calls can be seamlessly routed to wherever you're located — a cell phone, a client's office, a hotel room or a weekend cottage.

"VoIP is ideal for executives, as well as remote workers, who spend most of their day on the road or in meetings — which is probably most of us!" says Martine. "Executives I've spoken with see the benefits immediately, especially the ease with which they can return missed calls and manage their communications.

"Not surprisingly, they tell us that VoIP has made them more productive than they've ever been."

With VoIP, phone call logs track all calls, providing the ability to review the dates and times of every conversation and easily track time spent on individual clients or projects.

Users can manage all this and more right from the desktop using a standardized interface that adapts to their changing needs. For example, instead of rewiring all the phones when a company moves offices, an IT department can just configure the network with a few simple mouse-clicks to suit the new requirements.

LOWER YOUR BUSINESS COSTS

But it's not only the wealth of new features and ease of management that are leading more and more companies to adopt VoIP: It involves much lower costs as well.

"VoIP not only helps us satisfy the sophisticated communication needs of our demanding client set of business travelers," says Gustaaf Schrils, vice president of technology and services, InterContinental Hotels Group. "Its cost efficiency has also helped us to offer these enhanced services at competitive rates. Twice the gain for our guests staying at the company's hotels and resorts."

According to market research firm Nemertes Research, companies can reduce networking costs by as much as 20%. In addition, networking operational costs for companies with more than 1,200 employees can be reduced by as much as 40%.

That's why VoIP is considered nothing short of a reinvention of business communications, destined to become as pervasive a technology as e-mail and the Internet are today. In fact, recent research from the Yankee Group indicates that more than 60% of U.S. corporations will trial or implement VoIP in the next few years.

"It's not a matter of *if* but *when*," says Martine. "Eventually, companies of all shapes and sizes will be using VoIP. Plus, more and more executives realize that they can also easily extend the benefits of VoIP into their homes, enriching their private communications with enterprise-class features."

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abruptly lost its finance chief this summer and needs new blood in Arkansas, particularly among its middle management.

In 2003 the public company paid for a laundry list of what look like self-serving family deals: $2 million spent leasing planes from the family's privately owned Tyson Family Aviation; $5 million to use Don Tyson's wastewater-treatment facilities; $10 million leasing farmland and office space and purchasing poultry from various Tyson family members and their trusts. Now the SEC is on the threshold of bringing a civil enforcement against Don Tyson, claiming he did not properly report $1.7 million of company services, such as using the company's landscapers at home and charging the company for personal jet use.

"Go back and look at Dad's paychecks," says John Tyson. "They're $600,000, $1 million, $1.5 million. There were people, who didn't have any ownership, taking $20 million or $40 million out [of public companies]. If the family wanted to take money out, we'd have just increased the dividend. Why didn't we? We've always reinvested in the company."

Vigorous filial testimony notwithstanding, John Tyson's behind-the-scenes moves suggest the executive knows he has to move the new company away from its parochial practices. Since becoming boss he has appointed outside directors to the board and brought in the Reverend David Miller, a Yale Divinity School professor, to help instill "values." All employees are obligated to carry around in their wallets a plastic card with a list of principles like "We strive to be honorable people." More revealing: The firm's carefully crafted press release about the SEC investigation makes it clear John Tyson was cleared of wrongdoing—it's Pop who is in trouble. John's less slavish board had Don Tyson pay back $1.5 million in questionable perquisites.

"In his own personal dealings, John's trying to make sure he is on the right side of the issues," says Miller. "I also think he is in the process of stepping up. Of holding his father accountable." F

The Golden Egg?

SORIANA, A MEXICAN HYPERMARKET, IS FILLED WITH TYSON chicken thighs and oven roasters. From this one store, the middle class in the 1 million-strong metropolis of Torreón is buying $100,000 a month of Tyson chicken.

Tyson Foods' operations abroad, run by International President Greg W. Lee, are the company's hidden asset. Of its $3.3 billion in foreign sales last year, exports accounted for $2.1 billion, a business that's both risky and lucrative. Tyson's Japanese sales accounted for almost a quarter of international turnover but tanked after America's mad cow scare; Thailand's raging avian flu crisis, meanwhile, is a market opening for Tyson's squeaky-clean U.S. poultry. But Tyson's real future overseas lies in the companies it is building in emerging nations like China. Next frontiers: rebounding Brazil and eastern Europe.

The prototype for expansion is Mexico, where 15 years after entry Tyson is the third-largest chicken producer, with a sparkling new plant—complete with the latest marinating tubs and automated ovens—just finished outside Torreón. Tyson followed American customers like Wal-Mart and KFC south, taking on Industrias Bachoco, the Mexican chicken giant.

At a wholesale market in Torreón, shopkeepers have driven their Volkswagen Beetles down from the distant mountains to buy gizzards ($1.05 a pound) and chicken wings ($1.89 a pound) at Tyson's stall. All through the night, at the company's nearby "kill plant," trailer trucks are loaded with 65,000 "New York dress" chickens—marigold-dyed hens with throats slit and bled but still with their entrails. Quite a sight. Men in smocks and rubber boots rhythmically hurl, as if in an Olympic event, fat, yellow hens down the entire length of the 32-foot containers. When the trucks' floors are covered in carcasses, an ice machine covers them in 8 inches of crushed ice, until the trucks are filled to the rafters with repeated layers of ice and chicken and can start their 18-hour journeys to the markets of Mexico City. There Tyson sells birds from the backs of the trucks.

Meticulous: José Antonio Flores in his Mexican coop.

According to its managing director, José Antonio Valdés, Tyson de México's return on invested capital is a third higher than the U.S. figure, partly because Mexico sometimes uses hand-me-down plant equipment. Factory workers earn about $7,000 a year, compared with $24,000 or so in the U.S.

José Antonio Flores, 22, has contracted to raise Tyson chickens. Four years ago Flores, educated at a U.S. military school, spent $220,000 building his chicken coops; his father helped with the 20% equity he needed to secure the loan. Tyson provides chicks and feed, paying Flores a premium if 42 days later he delivers healthy chickens at above-average weights. Visitors to young Flores' farm must shower before entering—to reduce biohazards—and are handed laundered underwear and work garments before he politely guides them through his airy coops with the automated feeders. The young entrepreneur now owns 16 hen-rearing houses, well on his way to prosperity. —*R.C.M.*

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EIGHT YEARS AGO IT WAS STILL AN $80-BILLION-A-YEAR INDUSTRY. A few years from now voice phone service will scarcely figure as a footnote in the books of account of the telecom industry. Following five years or so behind voice, cable television and the video rental industry will go exactly the same way.

Techies began using the Internet to place voice calls to each other in the late 1990s, but for years such connections were of little practical importance in the marketplace. Dial-up connections were unreliable, transmission quality was low and setup was a hassle.

With the broadband connections now available, that's no longer true. Voice services travel at least as easily and economically on the new, high-speed data networks as on the old voice networks. Broadband connections are always on and can thus connect a call as fast as (or faster than) a conventional line. New quality-of-service standards and protocols allow network operators to give voice traffic priority over data, which ensures high-quality voice connections. New phones incorporating these standards can be plugged into an Ethernet jack as easily as an ordinary telephone can be plugged into a conventional phone jack. Backup batteries are now routinely included with the hardware on the customer's premises, making the new lines as reliable as the old. And voice over broadband supports calling features (like multiparty calling) far superior to any offered to users of conventional phone service. Voice over Internet is no longer a toy. It's a replacement for primary phone lines.

Incumbent phone companies certainly don't own this new market; they have no monopoly over broadband facilities. All six of the big cable operators, which collectively reach 85% of U.S. households, have begun commercial deployment of Internet voice telephony or have announced plans to do so imminently. But the cable operators don't control the market, either. The Internet's protocols are inherently open; voice services are being marketed throughout the country by an altogether new breed of dot-com-like competitors.

About one household in four already has a broadband connection; providing Internet-based voice service over that already-established connection costs well under $10 per month, far less than the cost of a conventional phone line. For most households Internet telephone service is cheaper even when you factor in the cost of the broadband connection itself. You can easily spend $60 a month on local and long-distance service, caller ID, voice mail, a second line for the computer and (low-speed) Internet access. A broadband connection with Internet voice service folds all of this into a single, integrated package. For now, at least, Internet providers typically dodge the federal, state and local taxes imposed on conventional phone service as well.

Indeed, broadband costs have now fallen to the point where voice over broadband can be marketed profitably even to households that subscribe only to bare-bones voice service and use no data or cable services at all. With the new data networks deployed almost everywhere, the incremental cost of extending service to an additional household is tiny. At least one cable operator now offers stand-alone, bare-bones, Internet voice service for less than $15 per month.

Price war! At least one cable operator offers bare-bones Internet voice service for less than $15 per month.

This is why telephone calling could be the killer app that will propel the purchase of broadband itself. Voice is still the most widely used telecom service and still generates the most revenue. If one customer in five finds the price of a broadband connection acceptable for Internet access alone, three or four in five will find it acceptable for voice-plus-Internet.

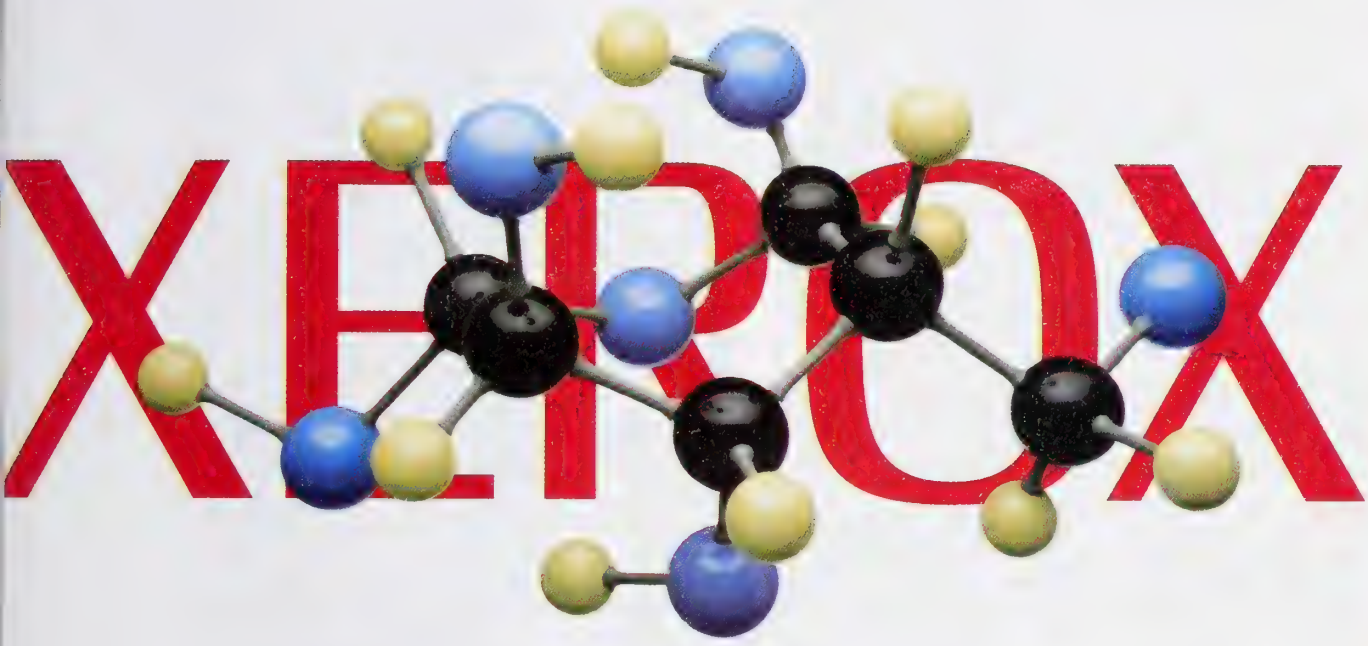
Video services will follow just as soon as the pipes get fast enough to handle them. That will probably take no longer than five years. Phone and cable companies alike are now deploying fiber-to-the-curb, and in short order both will be competing to extend fiber to the home. Fiber supplies truly gargantuan amounts of capacity.

Competitive video over broadband services have already been rolled out. Some 60 small phone companies are offering cable-like video services using digital subscriber line technology in the U.S., and video over DSL has been widely deployed in Canada, Japan, Korea and Italy. Five Hollywood studios have joined with Intel to form Movielink, which allows users to download films on demand. Disney, Microsoft and Time Warner's AOL have launched a video-on-demand service as well. Numerous Internet video services are also available—Sony's SoapCity, for example—and many more are certain to come online year by year.

Video will push us beyond broadband service; then something else—online games, perhaps, as fast and graphically rich as a Spider-Man movie—will push us beyond the beyond. And with each new leap in broadband capacity, another 11 digits or so of old GDP will tumble into the new wires. F

Forbes

Peter Huber, a Manhattan Institute senior fellow, is coauthor of the forthcoming *The Bottomless Well* (Basic Books, 2005). Visit his home page at **www.forbes.com/huber**.



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Dick Cheney's Revenge

It isn't easy being **HALLIBURTON (32, HAL)**, the left's favorite corporate whipping boy. The firm that Dick Cheney used to lead is under investigation for its work in Iraq. Halliburton has weathered a federal accounting probe of its revenue recognition. There's an enormous asbestos liability. A large oil-platform project under way off Brazil is far behind and overbudget. Because of myriad charges, Halliburton lost money last year and in 2004's first two quarters.

But let's not forget that Halliburton is one of the world's largest oilfield services companies, and that oil prices are high and exploration is gearing up (*see story, p. 90*). Creditsights senior oil-and-gas analyst Brian M. Gibbons Jr. says Halliburton's bad days are behind it. Despite the red ink, revenue for the first half leapt 57% to $10.5 billion. The asbestos problem may be under control: Of the $2.6 billion the company likely owes, two-thirds will come from insurers; the rest can be paid off between 2006 and 2009. Right now Halliburton holds $2.2 billion in cash and has $1.5 billion in unused credit lines.

Halliburton's enterprise multiple (stock market cap and debt, divided by earnings before depreciation, interest, taxes and nonrecurring items) is 13.7. That is in line with the multiples at Schlumberger (14.2) and Baker Hughes (14.5). While Halliburton lags rivals in its operating margin, it is closing fast. Chief Executive David Lesar may shed the company's KBR (formerly Kellogg Brown & Root) construction division, where most of its problems lie.

—Phyllis Berman

In Iraq, Halliburton employees inspect an oil-and-gas plant renovated postwar.

Walk the Walk

So **PAYLESS SHOESOURCE (11, PSS)** can't fight back against Wal-Mart and Target, eh? These giants have horned in on Payless' business of selling knockoff shoes at a discount. Sales at Payless' 5,000 stores have fallen 4.4% since 2001. The chain lost money last year. In 2004's first half sales at $1.4 billion and earnings at $20 million were flat.

But the company's managers are closing its 260 worst-performing stores, slashing operating costs by $20 million. Bruce Geller, a partner at money manager Dalton Greiner Hartman Maher in New York, says this puts the company firmly on the comeback trail. He thinks Payless should easily earn 90 cents a share in 2005. Payless' enterprise multiple is 6.4, a bit cheaper than rival Foot Locker at 7.2.

—Evan Hessel

Chip Shot

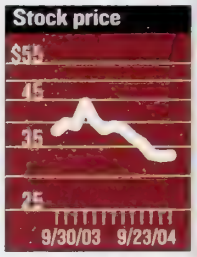
Intel is making foreboding predictions. The Philadelphia Semiconductor Index is down 14% from one year ago amid concerns about demand. One chipmaker in particular, **STMICROELECTRONICS (19, STM)**, has taken a big beating: Even though its sales in 2004's first half are up 27% to $4.2 billion and net income rose 42% to $225 million, its shares have dropped by 40% in the past year.

Yet Nicolas Gaudois, analyst at Deutsche Bank, says the Swiss chipmaker's restructuring efforts will enable STMicro to hit a gross margin of 40% by year-end, up from 37% now. And its defensive product portfolio—chips for digital set-top boxes and DVD players—should fare well in cyclical downturns. At 26 times earnings it is priced in line with peers. Gaudois, meanwhile, expects a big earnings gain next year, to $1.35 a share.

—Susan Kitchens

Taking Stock

The bogus Bush-National Guard story from Viacom's CBS is embarrassing. The **VIACOM (33, VIA.B)** plan to split off its 81% stake in Blockbuster, given its shrinking video-rental business, is far worse. The deal: You swap a Viacom share for 5 Blockbuster shares, thus reducing Viacom's 1.7 billion shares by 30 million.



But Viacom will lose Blockbuster's $6 billion revenue and $556 million in operating income, says David Miller of Sanders Morris Harris. He says the trade will knock 6 cents per share from his previous 2005 earnings estimate of $1.84. Viacom head Sumner Redstone has promised a huge stock buyback. While details aren't out, Miller expects it to cost more than Viacom's $1.7 billion cash on hand. Not the best use of capital. We say short Viacom, cover at $28.

—Dorothy Pomerantz

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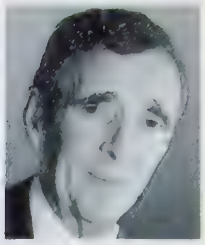

The Curse of The Hot Hand

WHY IS IT THAT PEOPLE ARE SO PRONE TO BUYING high and selling low? Why was it that the flow of money pouring into dot-com stocks reached its apogee when the stocks were the most ludicrously overpriced? Nobel laureate Daniel Kahneman of Princeton and the late Amos Tversky of Stanford have given us a good sense of the phenomenon through what they called the Law of Small Numbers. This is the tendency of people to be unduly influenced by recent events or statistical outliers. Thus, if tech stocks had a burst of gains last year, the public raises its expectations for next year. Logically, you should expect the reverse.

Take the multitude of investors who followed one or two good calls of seemingly omniscient market timers like Joseph Granville, Elaine Garzarelli or Abby Joseph Cohen, only to fall into the abyss. By the same token investors typically rush to cash near a bear market's end, when values are at their best and they should be buying bargain stocks.

In the early 1980s, right before the great bull market started, returns on stocks badly trailed those of precious metals, bonds, collectibles and even postage stamps. A tidal wave of new money, cheered on by then-prevailing expert wisdom, flowed into such investments. In the post-1982 stock rally all of these hard assets soured badly.

The Law of Small Numbers is in full force among mutual fund buyers. Many investors flock to funds with sizzling short-term performance. The media and the fund-ranking services fan the misbegotten enthusiasm by hyping current star performers and ranking these funds atop weekly lists.

During the bubble billions of dollars flowed into Janus funds. The short-term records were spectacular. The flagship Janus Fund surged past the rapidly rising S&P 500 by 10.3 percentage points in 1998 and 26.1 points in 1999, right before the bubble burst. Still, the Janus Fund over the last decade has averaged a 7.9% return, meaning it underperformed the market by an annual 2.8 percentage points.

Even this grim statistic doesn't do justice to the damage wrought by Janus. The Janus Fund's assets were only $9 billion a decade ago but reached $49 billion on Mar. 31, 2000. A large number of its customers arrived too late to enjoy the fabulous returns of the late 1990s but were around to get murdered in the bear market. This crowd did a lot worse than earn 7.9% a year.

Some of Janus' competitors in the hot-stock derby performed as badly. Fidelity Select Telecommunications beat the S&P 500 by 12.4 points in 1998 and 45.5 in 1999, while AllianceBernstein Technology bested the index by 34.6 and 50.7. And still, the Fidelity fund has lagged the S&P 500 by 5.8 points annually over the last ten years; the AllianceBernstein portfolio fell short by 1.8.

The hot-hand syndrome is alive and well today. Once the bubble had burst, bond funds became the favorite flavor. Don't expect this to continue. Rising inflation and higher rates should dampen bond fund returns and investors' spirits. Natural resource and commodity funds are other places not to be after recent sharp run-ups. They are very volatile, and over time their records are mediocre. Another winner lately has been four-year-old ProFunds Ultra-Sector Wireless, up 65.6% in 2003 and 32% in 2004, after two rotten years. The good showing is partly due to AT&T Wireless' zooming stock after Cingular announced a takeover. Be skeptical about this fund.

Mutual funds with short-term sizzle become dangerously popular. The only way to judge a fund's worth is over a long period.

For three years, until 2004, gold funds did brilliantly, then they dimmed. The American Century Global Gold fund, for instance, is down 15.5% this year after a spectacular three-year run. Over ten years the fund trails its benchmark, the MSCI EAFE index, by 2.8 points.

Nevertheless, you can find good funds with fine long-term track records and relatively low risks. They don't go for flashiness, just savvy stock picking that outdoes the S&P 500 by a comfortable margin.

Meridian Value follows a mid-cap blend style that has returned 15.4% annually for five years and 19.1% for ten. Thus far this year it is up 2%. Its leading holdings include Safeco and Storage Technology. It charges 1.1% of assets yearly, less than the fund average of 1.5%.

Weitz Value, a Forbes Honor Roll member *(see Sept. 20 issue)*, also focuses on mid-caps. Under Wallace Weitz since 1986, it boasts an 8% five-year and a 16% ten-year annualized return. Biggest positions: Berkshire Hathaway and Caesars. Expenses are 1.1%.

The estimable **Vanguard Health Care** is up 19.5% a year over the past decade. Pfizer and Aventis are its largest stocks. Expenses: a mere 0.3%. F

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David Dreman is chairman of Dreman Value Management of Jersey City, N.J. His latest book is *Contrarian Investment Strategies: The Next Generation*. Visit his home page at **www.forbes.com/dreman**.

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Happy Anniversary, Mr. Market

WITH 2004 WE HAVE A FORGETTABLE YEAR FOR investment returns but a vintage one for financial anniversaries. A half-dozen milestones in the stock and bond markets command our remembrance today.

First light a candle for the 75th anniversary of the 1929 Crash. "There has been a little distress selling on the stock exchange," said Thomas Lamont, senior partner of J.P. Morgan & Co., on Black Thursday, Oct. 24. In fact, the crack-up itself was far from the worst blow to fall on your ancestors' heads during the unprosperous Hoover Administration. The killer was the postcrash bear market. Between the recovery highs in the spring of 1930 and low ebb in 1932, the Dow Jones industrials lost 86%.

"These are days when many are discouraged," said John D. Rockefeller in a birthday message to America dated July 8, 1932, the very day the market scraped bottom. "In the 93 years of my life, depressions have come and gone. Prosperity has always returned, and will again."

It did, but—in stock market terms—not for 25 years. A quarter-century is a long time to wait for a new high. In 1954, to commemorate the Dow's return to the heights of Sept. 3, 1929, John Kenneth Galbraith published *The Great Crash*, a cautionary tale on stocks couched as popular history. With a little more foresight, Galbraith could have written a predictive work entitled The Great Bull Market, since the averages were, indeed, poised for liftoff. Then again, in 1954 a bullish book would probably have undersold a bearish one. Famously, people are bullish at the top and bearish at the bottom.

They were bearish to the point of revulsion 20 years later. This was the cavernous low of October 1974. The Dow had peaked in 1966. The Vietnam War, a dollar crisis, virulent inflation, a recession and a presidential resignation had conspired to make a multibillion-dollar gift to Warren Buffett. "How do you feel?" FORBES asked the Sage of Omaha as the Dow was making a final, sickening low. "Like an oversexed guy in a whorehouse," the master replied. "This is the time to start investing."

So much for stocks. At the moment, by conventional measures, they are anything but cheap. History suggests that they will once again become cheap, even too cheap. An investor may prudently wait.

Monetary anniversaries also dot the 2004 calendar. Foremost among them is the Federal Reserve's 90th. Have you sent Alan Greenspan a birthday card? Save the postage; don't encourage him. The Fed is in the dubious business of price-fixing. Or rather, interest-rate-fixing. Never mind that free markets in interest rates span the globe. The Bank of Alan Greenspan putatively knows best.

As well, this year marks the tenth anniversary of the 1994 Fed tightening campaign. You will remember that, in the wake of the banking and real estate pileup of the late 1980s and early 1990s, the Fed had turned highly accommodative. By late 1992 it had pushed the federal funds rate down to what, at the time, was thought to be a radically low and stimulative level. And it was. What it especially stimulated was speculation in interest rates. Borrowing at 3%, Wall Street invested in short-dated securities yielding just a little bit more than that.

This is a big year for market anniversaries—75 years since the Great Crash of 1929; one year since the start of a bond bear market.

But in February 1994 Greenspan reversed course and yanked the bond market from its moorings. Why did the Fed raise its rate? To kill the sharks of inflation.

Scroll forward now to 2003. Why did the Fed cut its rate? To kill the shark of deflation. The Consumer Price Index had lost its customary postwar lilt. Without a stiff dose of monetary stimulus, Greenspan declared, there might be no inflation at all, or—something supposedly infinitely worse—a whiff of deflation. He would not stand for it, he averred. If need be, the Fed would push the ten-year Treasury yield all the way down to 2.5%, as it had done during World War II. By June 2003, when the bond market stopped rallying, the yield on the ten-year stood at 3.1%, the funds rate at 1%. Here were emergency yields, unseen in America for a half-century. But what was the emergency?

Because I view the early-2003 bond rally as a government manipulation, I doubt that the ten-year will soon return to 3.1%. In fact I believe that the bond bull market that began in 1981 (at a yield on the 30-year of almost 15%) ended in mid-2003. You could have lit another candle: June marked the first anniversary of the new bear market in bonds. Happy Anniversary, Mr. Market! F

Forbes.com | **James Grant** is the editor of *Grant's Interest Rate Observer*. Visit his home page at **www.forbes.com/grant**.

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Lisa W. Hess

Korea Redux

A BIG MISTAKE INVESTORS MAKE IS SPENDING TOO much time predicting the unpredictable—like whether a company's earnings next quarter are going to be 2 cents higher than the consensus—while ignoring trends that are quite visible and that will have a huge impact on investment results. A prime example of such a trend: the rise of the consuming class in Asia and the dramatic increase in the quality of life that must inevitably follow. What with cell phones, cars, credit cards and houses within reach of millions of formerly impoverished Asians, this trend will not go away and will only grow stronger.

One way to capitalize on this underappreciated trend is to buy stocks in South Korea. A year ago (*Oct. 13, 2003*) I recommended Korean stocks as better values than Chinese issues. Since then the Korean Composite index, or Kospi, is up almost 14%, and China, depending on which index you use, is down between 4% and 8%. I am even more convinced today that the better bargains are on the peninsula. China's need to recycle surplus dollars is creating a dangerous overvaluation in commercial real estate.

Why are stocks cheap in South Korea? The primary reason is that consumer sentiment is weak. As measured by the OECD Consumer Confidence Survey, over the past year the index has tumbled from the normal level of 100 to 87. This downshift has come with tension over North Korea's efforts to make nuclear bombs and, more significantly, with a surge in recession-related loan defaults.

Still, the situation is hardly as dire as during the 1997-98 Asian financial crisis, when, reminiscent of Scarlett O'Hara in *Gone With the Wind*, Korean patriots turned in their gold, even their wedding rings, to the central bank. This civic-mindedness helped rescue their country from bankruptcy. From a low of 280 in 1998 the Kospi has recovered to 850. Yet in dollar terms Korean stocks are as cheap as they were 15 years ago.

One reason to look for a resumption in consumer confidence—and spending—is the strength of Korea's export economy, due, in large part, to the deliberate undervaluing of the Korean won. As in China, Japan, Thailand and Indonesia, in Korea the central bank has moved to ensure that consumers overseas find the output of Korea's factories a bargain. Growing China and the consumption-happy U.S. are Korea's largest export markets. As a result Korea enjoys solid job growth that puts cash in people's pockets.

Consumer behavior in Korea has been on some wild swings. After the 1998 crisis the Korean banks went on a consumer lending binge. Next came the 2000-03 worldwide economic downturn, and debt-laden Koreans pulled back on their consumption. Now, though, Korean fiscal and monetary policy is aimed at reviving domestic demand. The Korean central bank unexpectedly cut rates in August. Subsequently the government announced a series of sales and income tax cuts. The stimulus won't be felt right away, but it is coming.

Here are two Korean stocks that will catch this wave.

Hyundai Motors (IO, HYU GR) is the dominant car and truck manufacturer in South Korea. With a 50% market share, it's like General Motors and Ford rolled into one. To buy Korean shares directly, you must have your broker open an account with a firm situated in Korea and register for a foreign investor number, usually an expensive proposition with a hefty commission of around 3%. A cheaper idea is to buy the Global Depositary Receipts. Hyundai sells at seven times trailing earnings and pays a 1.9% dividend.

The peninsula's consumers have been in a funk. But government pump priming and strong job growth will turn that around—and soon.

Normally I don't recommend buying stock in a *chaebol* (Korean conglomerate). But this company, unlike its bloated brethren, is very efficient and well run.

The past year has been a rocky one for Hyundai. In addition to flagging domestic sales, it has weathered the indictment of the chief executive for unfair political contributions and DaimlerChrysler's unloading of a 10% stake. Despite such travails, exports have continued to improve. A new car model, the Sonata, was introduced at the end of August.

KT Corp. (IB, KTC), conveniently available in American Depositary Receipts, is the dominant telecom provider in Korea, with wireline, satellite, mobile and broadband. KT (formerly, Korea Telephone) is the world's largest provider of broadband, with 5 million subscribers. Right now the company is suffering from declining landline voice revenues while it is paying heavily to build the new technology. KT announced in late August that profits are way down and revenue would remain flat in 2005. KT also announced a commitment to return $550 million to shareholders, either through dividends or share repurchases. With an 8% yield, KT should grab some attention. F

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Lisa W. Hess is a New York money manager. Visit her home page at www.forbes.com/hess.

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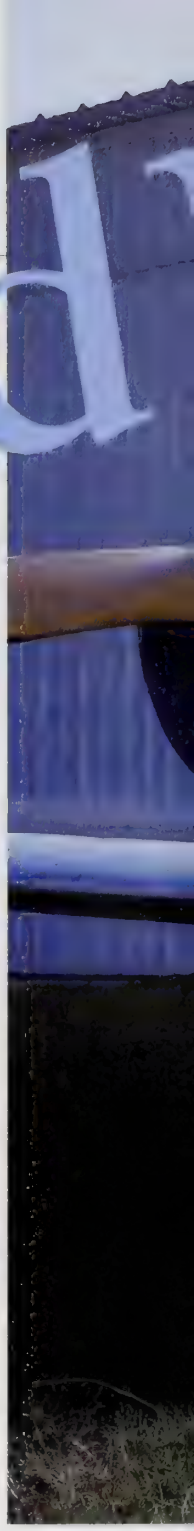
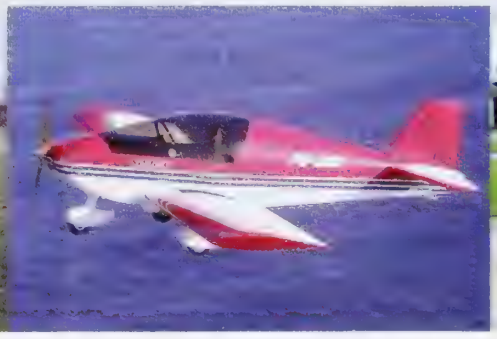


NOTWITHSTANDING ALL the hoopla last year over the Wright Brothers' flight centennial, flying remains a rarefied activity. Not even 1% of the U.S. population has license to fly. And two-thirds of the people who sign up for lessons quit before they get their license. Why? Time and money. Getting your pilot's license has traditionally taken lots of both.

Not anymore. Effective Sept. 1, the Federal Aviation Administration has created a new type of license, "sport pilot," and a new category of aircraft, "light-sport." Students can qualify for the license with as few as 20 hours of in-flight instruction, compared with the 40 to 60 still required for the more demanding "private pilot" category. Fewer hours means lower cost: $2,000 versus $6,000. A further saving: No physical exam is required for sport pilot. Having a valid driver's license is sufficient.

Such pilots are permitted to fly only under fair-weather conditions—3-mile visibility, during daylight hours, at altitudes not exceeding 10,000 feet. Their planes must be single engine, can't cruise faster than 138mph and can't have a stall speed higher than 51mph. Nor can they weigh more than 1,320 pounds. (Ultralights—aircraft weighing 254 pounds or less—can still be flown without a license, just as now.)

The Experimental Aircraft Association estimates that the looser rules could put 20,000 sport pilots in the air by 2007—compared with the 250,000 private pilots now flying. Aircraft manufacturers expect to see a corresponding jump in sales. The market for sport-



Recreational flyer Michael Singleton with a friend's Sonex—one of a flock of kit-built aircraft now taking flight.

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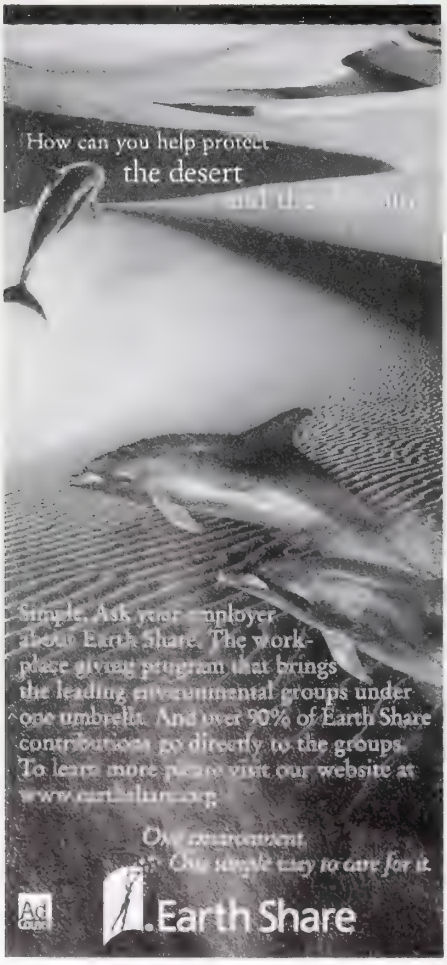

type aircraft could quadruple from $12 million now to $48 million by 2009, speculates the EAA. Other businesses would benefit as well, since recreational pilots spend money on flight gear, equipment upgrades, maintenance, fuel and travel.

Whereas some ultralights look like winged folding chairs, planes fitting the light-sport category are more powerful, sturdier and equipped with navigational gear that puts them on a par with much larger planes. They cost around $60,000 ready-made, or $120,000 less than an entry-level, single-engine Piper or Cessna.

Kits with holes predrilled and aluminum parts preformed drop the cost of a light-sport to between $25,000 and $35,000, including engine. The FAA requires kit buyers to perform 51% of all assembly work themselves, but there's an upside: Later, when your plane needs servicing, you can get authorization to do the work yourself.

Sebastien Heintz, president and owner of Zenith Aircraft in Mexico, Mo., produces 250 kits a year. "It's basically a big Erector set," he says. "You get all the parts and a big fat manual." The advent of the sport-pilot rule, he thinks, "will allow us to offer not just kits but fully assembled planes. We have seen a huge amount of interest in this." He expects to see bigger manufacturers get involved. "Cessna, Piper and Beech will probably wait a few years and then step in. Mooney Aircraft in Texas has already announced it will be marketing a light-sport plane."

Jeremy Monnett, general manager of Sonex Ltd., a manufacturer in Oshkosh, Wis., says the new rule might double his sales, now $2 million a year. Sonex was touting the new sport-pilot rules at its booth at the EAA's Oshkosh air show in August, a month before they officially kicked in. Sonex has three different models of plane, all kits, that qualify as light-sport aircraft.

One, the Xenos, is a sleek powered glider with a 44-foot wingspan and an 80hp, four-cylinder air-cooled engine to keep it cruising at up to 130mph. With such accessories as leather seats, radio and navigation equipment, it will run you $27,000 plus 1,000 hours of sweat equity.

In January John Moyle, 51, a truck driver for FedEx Freight in Fresno, Calif., sank $21,000 into a Sonex kit. For years he'd flown an ultralight, but he'd decided he wanted something with more guts and was ready to pay for it. "You could buy a good speedboat for what I spent," he says, "but you can't go 138 miles per hour."

The kit arrived eight weeks later and included ten bundles of sheet metal, blueprints, rivets and parts weighing 700 pounds. Moyle cleaned out his two-car garage, carting five pickup loads of junk to the dump. He installed drywall, hung fluorescent lights and insulation and ran air-conditioning. He is going to build his plane in comfort.

Singleton and his own Sonex: aloft by New Year's, he swears.

Says Moyle, "I could probably sell it for $35,000, once I have it built." That would hardly make it a profitable venture, considering the 700 to 1,200 hours he'll invest in labor. This, however, is a labor of love. "I have been wanting to build a plane for 15 years," he says. "I live 30 miles west of the Sierra Nevadas. I can see them quite well from my house, but I want to see them from the air." F

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THOUGHTS
On the Business of Life

New York's famed skyline is literally dwarfed by the gigantic new Port Authority twin towers. Those with even the slightest knowledge of their genesis and the havoc these towers have wrought look at them with wonderment, with awe not for the accomplishment of architects and builders, but for the colossal blunders in "thinking" which led to their construction. Someone has even suggested that the only solution to the problems they have created would lie in demolishing them. They'll remain, of course, as long as New York does.

—MALCOLM S. FORBES (1975)

Architecture is the learned game, correct and magnificent, of forms assembled in the light.

—LE CORBUSIER

All architecture is shelter, all great architecture is the design of space that contains, cuddles, exalts, or stimulates the persons in that space.

—PHILIP JOHNSON

Windows are as essential to office prestige as Christmas is to retailing.

—ENID NEMY

The purpose of architecture is to shelter and enhance man's life on Earth and to fulfill his belief in the nobility of his existence.

—EERO SAARINEN

Architecture is the will of an epoch translated into space.

—LUDWIG MIES VAN DER ROHE

The mother art is architecture. Without an architecture of our own we have no soul of our own civilization.

—FRANK LLOYD WRIGHT

Architecture begins where engineering ends.

—WALTER GROPIUS

Every time a student walks past a really urgent, expressive piece of architecture that belongs to his college, it can help reassure him that he does have that mind, does have that soul.

—LOUIS KAHN

It is not an individual act, architecture. You have to consider your client. Only out of that can you produce great architecture. You can't work in the abstract.

—I.M. PEI

A building—if it's beautiful—is the love of one man; he's made it out of his love for space, materials, things like that.

—MARTHA GRAHA

The future of architecture does not lie so much in continuing to fill up the landscape as in bringing back life and order to our cities and towns.

—GOTTFRIED BOEH

Concrete is, essentially, the color of bad weather.

—WILLIAM HAMILTO

Architecture is to make us know and remember who we are.

—GEOFFREY JELLICO

A Text...

We know that if our earthly house of this tabernacle were dissolved, we have a building of God, a house not made with hands, eternal in the heavens.

—II CORINTHIANS 5:1

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